

Pursuant to Articles 27, 28, 80, 81, 95 of the Banking Law (Official Gazette of the Federation of BiH, No. 27/17), Article 5, paragraph (1) item h) and Article 19, paragraph (1) item c) of the Law on the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH”, No. 75/17), and Article 7, paragraph (1) item h) and 12 item d) of the Statute of the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH”, No. 03/18) the Management Board of the Banking Agency of the Federation of Bosnia and Herzegovina, at its session held on December 15, 2023 adopted

DECISION ON CALCULATION OF BANK CAPITAL

Article 1

Subject matter of the Decision

- (1) This decision stipulates:
 - a) characteristics and types of items to be included in the calculation of the own funds
 - b) the method and scope where the individual items shall be included in the calculation of regulatory capital categories;
 - c) financial leverage ratio;
 - d) capital buffers and capital conservation measures; and
 - e) own funds requirements and methodology for calculating own funds requirements
- (2) Any bank with headquarter in the Federation of BiH (hereinafter: the FBiH) to which the Banking Agency of the Federation of BiH (hereinafter: the Agency) has issued operating licenses, shall apply the provisions of this Decision.
- (3) Banks shall apply the provisions of this Decision on an individual and consolidated basis under the regulations governing consolidated supervision.
- (4) Annex I, II, III and IV are attached to this decision.

Article 2

Definitions

The terms used in this Decision have the following meanings:

- a) **Leverage** means the relative size of a bank’s assets, off-balance sheet obligations and contingent obligations to pay or to deliver or to provide collateral, including obligations from received funding, made commitments, derivatives or repurchase agreements, but excluding obligations which can only be enforced during the liquidation of an institution in accordance with the applicable national law, compared to that bank’s own funds;
- b) **Accumulated other comprehensive income** has the same meaning as under International Accounting Standards, excluding revaluation reserves from property, plant and equipment and intangible assets, and in calculation of regulatory capital it shall be expressed same as in the bank financial reports, reduced by related tax effects
- c) **Deferred tax assets and deferred tax liabilities** have the same meaning as under the applicable accounting framework;
- d) **Deferred tax assets that rely on future profitability'** means deferred tax assets the future value of which may be realised only in the event the bank generates taxable profit in the future
- e) **Distributions** means the payment of dividends or interest in any form;
- f) **Funds for general banking risk'** – funds established by banks upon decision of the competent body to cover losses for specific risks arising from banking operations, and related to value adjustments of balance-sheet assets and provisioning for off-balance sheet items;

- g) **Intangible Assets** – have the same meaning as under the applicable accounting framework and includes goodwill;
- h) **Indirect holding** - exposure to an intermediate entity that bought capital instruments issued by a financial sector entity where, the loss that the bank would incur would not be materially different from the loss the bank would incur from a direct holding of those capital instruments;
- i) **Other capital instruments** means capital instruments issued by financial sector entities that do not qualify as Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments
- j) **Other reserves** means reserves within the meaning of the applicable accounting framework that are required to be disclosed under the applicable accounting standard, excluding any amounts already included in accumulated other comprehensive income or retained earnings
- k) **Own funds instruments** means capital instruments issued by the bank that qualify as Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments
- l) **Profit** has the same meaning as under the applicable accounting framework.
- m) **Reciprocal cross holding** means a holding by a bank of the own funds instruments or other capital instruments issued by financial sector entities where those entities also hold own funds instruments issued by the bank;
- n) **Retained earnings** means profits and losses brought forward as a result of the final application of profit or loss under International Accounting Standard/ International Financial Reporting Standard
- o) **Share premium account** – this account shows a positive difference for the sales value of the shares and their nominal value, have the same meaning as under the applicable accounting framework.
- p) **Distributable items** means the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose, before distributions to holders of own funds instruments, less any losses brought forward, any profits which are non-distributable pursuant to provisions in legislation or the bank's bye-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of the bank. Such profits, losses and reserves being determined on the basis of the individual accounts of the bank and not on the basis of the consolidated accounts;
- q) **Credit institution** means an undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account. For the purpose of this Decision and pursuant to the existing regulations, a credit institution in Bosnia and Herzegovina (hereinafter: BiH) is a bank. Credit institutions outside BiH are defined in accordance with the European Union (hereinafter: EU) legislation or applicable national law;
- r) **Institution** means a bank in BiH, outside BiH it means a credit institution and an investment firm licensed in accordance with the related EU legislation or applicable national law;
- s) **Investment firm** means, for the purpose of this Decision, any legal person whose regular occupation or business is the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis, excluding credit institutions;
- t) **Insurance undertaking** – a legal person defined pursuant to the Law on insurance companies in the Federation BiH and by the Law on insurance companies of the Republika Srpska (hereinafter: the RS). Insurance undertakings outside BiH are defined pursuant to the regulations of the European Union or national legislation of the countries;

- u) **Reinsurance undertaking** – a legal person as defined pursuant to the Law on Insurance Companies of the Federation of BiH and the Law on Insurance Companies of the RS. Reinsurance undertakings outside BiH are defined in accordance with the EU legislation or applicable national law;
- v) **Investment fund** – means a legal entity defined by the regulations in the FBiH and RS, governing operating conditions of the investment funds. Outside BiH, the investment funds are defined in accordance to regulations of the European Union or national legislations of the country concerned;
- w) **Central government** – includes states authorities and bodies financed from the state budget and as such defined by the competent regulatory authority – regulation of the country concerned. In BiH, the term “central government BiH” includes the following authorities and bodies:
 - 1) Legislative power,
 - 2) Executive power, and
 - 3) Judicial power.
- x) **Central bank** means the Central Bank of Bosnia and Herzegovina (hereinafter: CBBiH), the European Central Bank, the central banks of the EU Member States and the central banks of third countries;
- y) **Regional governments and local authorities** – includes bodies defined as such by the competent regulatory authority – regulation of the country concerned and which are financed from their budgets. In BiH it includes the following authorities or bodies:
 - 1) Legislative and Executive authorities of the FBiH, the RS and Brčko district,
 - 2) Legislative and Executive authorities of Cantons,
 - 3) Municipal and City Administration,
 - 4) Judicial power and judiciary of the FBiH, Republike Srpske RS and Brčko district cantons and municipalities and
 - 5) authorities or bodies financed from the budget of governments referred to in points 1) to 4);
- z) **Public Sector Entities (PSE)** – include entities defined as such by the competent regulatory authority of the country concerned, and where there is no such a definition, it refers to:
 - 1) a non-commercial administrative body responsible to central governments, regional governments or local authorities,
 - 2) a non-commercial undertaking set up by central governments or regional governments and local authorities and that has explicit guarantee arrangements for their liabilities,
 - 3) and an institutions whose operations are governed by the specific law and which are subject of public supervision (agencies, institutes, commissions and similar institutions);
- aa) **Multilateral Development Banks (MDB)** – legal entities whose owners or members are minimum three sovereign states and whose main activity is to provide funds for economic and social development of member states or only selected group of states;
- bb) **Asset Management Company** – legal entity defined in accordance with regulations in FBiH and the RS, governing the operating conditions of asset management companies. Outside BiH, asset management companies are defined in accordance with the EU legislation or applicable national law;
- cc) **Financial sector** entity means any of the following:
 - 1) an institution;
 - 2) a financial institution;

- 3) an ancillary services undertaking included in the consolidated financial situation of an institution;
 - 4) an insurance undertaking;
 - 5) an other-country insurance undertaking;
 - 6) a reinsurance undertaking;
 - 7) an other-country reinsurance undertaking;
 - 8) an insurance holding company;
 - 9) an other-country undertaking with a main business comparable to any of the entities referred to in points 1) to 8).
- dd) **Financial institution** means an undertaking other than an institution and other than a pure industrial holding company, the principal activity of which is to acquire holdings or to pursue one or more of the following activities:
- 1) Granting credits and loans, where applicable under the specific law;
 - 2) financing commercial deals, including export financing on the basis of redemption under discount and without regress of long-term not yet matured claims secured with financial instruments (in English, forfeiting);
 - 3) financial leasing;
 - 4) payment services under the specific law;
 - 5) issuance of other payment instruments and their management, if the provision of those services is not deemed as provision of payment system services;
 - 6) Issuance of guarantees or commitments;
 - 7) dealing on own account or for clients:
 - money market instruments (cheques, bills of exchange, deposit certificates etc.),
 - transferable securities.
 - foreign exchange assets,
 - financial futures and options,
 - currency and interest rate instruments;
 - 8) intermediation in concluding deals on the money market;
 - 9) participating in the issuance of securities and provision of services relating to the issuance of those securities;
 - 10) management of clients' assets and advising in that regard,
 - 11) custodial deals with securities, as well as services of management of securities;
 - 12) counselling of legal persons relating to capital structure, business strategy, and similar issues, as well as the provision of services that concern deals of merger, i.e. acquisition, and acquisition of shares and stocks in the business of other companies;
 - 13) issuing of electronic money;
- Financial institution includes an investment firm, a financial holding company, a mixed financial holding company, an investment holding company and an asset management company, but excluding insurance holding companies and mixed-activity insurance holding companies;
- ee) **Independent appraiser** (internal or external) has the same meaning as in the Decision on Credit Risk Management and Determination of Expected Credit Losses;
- ff) **Credit Risk Mitigation (hereinafter: CRM)** means a technique used by a bank to reduce the credit risk associated with an exposure or exposures which that bank continues to hold and which include funded or unfunded credit protection;
- gg) **Funded credit protection** means a technique of credit risk mitigation where the reduction of the credit risk on the exposure of a bank derives from the right of that bank in the event of the default of the counterparty or on the occurrence of other specified credit events relating to the counterparty, to liquidate, or to obtain transfer or

appropriation of, or to retain certain assets or amounts, or to reduce the amount of the exposure to the amount of the difference between the amount of the exposure and the amount of a claim

- hh) **Unfunded credit protection** means a technique of credit risk mitigation where the reduction of the credit risk on the exposure of a bank derives from the obligation of a third party to pay an amount in the event of the default of the borrower or the occurrence of other specified credit events;
- ii) **Cash assimilated instrument** means a certificate of deposit, a bond, including a covered bond, or any other non-subordinated instrument, which has been issued by a bank or an investment firm, for which the bank or investment firm has already received full payment and which shall be unconditionally reimbursed by the bank or investment firm at its nominal value;
- jj) **Marking to market** means the valuation of positions at readily available close out prices that are sourced independently, including exchange prices, screen prices or quotes from several independent reputable brokers;
- kk) **Market value of property** - the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction under market conditions wherein the parties had each acted knowledgeably, prudently and without being under compulsion;
- ll) **Residential property**- a house, apartment, and accompanying parts of apartment in condominium ownership that are intended for housing, and construction land intended for building of a residential real estate. A garage or a parking spot shall be deemed as residential real estate, if the mortgage was based on the garage, i.e. parking spot, together with the family house, apartment, and accompanying parts of the apartment in condominium ownership that are intended for housing. A holiday homes and recreation shall not be deemed as residential real estate.
- mm) **Commercial property** - a commercial building, business premises, garage, and garage/parking spot, construction land intended for construction of commercial real estate, and agricultural land. Commercial property shall pertain to a building intended for the performance of business activity, if it is being used for those purposes, for the most part. Business premises shall pertain to one or more premises in a commercial or residential property that are intended for the performance of business activities and that, as a rule, represent a building unit and have a separate main entrance. A garage or a parking spot shall be deemed as commercial property if they are intended for the performance of business activity or are used for that purpose, for the most part, or if the mortgage was based on the garage, i.e. garage/parking spot, together with the commercial property. Agricultural land shall pertain to meadows, orchards, vineyards, fisheries, and other land intended for performance of agricultural activities, if it is being used to that purpose, for the most part
- nn) **Exposures at default** - the exposures which meet one or both of the following conditions: 1) debtor is in default with repayment of liabilities to the bank for longer than 90 days in a materially significant amount. Materially significant amounts shall pertain to claims from: - Natural person in the amount exceeding BAM 200 KM and 1% of the total debtor's on-balance-sheet exposure, - Legal entity in the amount exceeding BAM 1000 and 1% % of the total debtor's on-balance sheet exposure 2) The bank considers that the obligor is unlikely to pay its credit obligations to the bank, the parent undertaking or any of its subsidiaries in full, without recourse by the bank to actions such as realizing security. The bank shall determines default status for legal entities at the level of the total claims from that entity. Notwithstanding, for exposures to natural persons, banks may determine default status based on individual exposure,

and not at the level of total claims against debtor. Thereby, where the gross book value of the exposure to natural person in default status exceeds 20% of the total gross book value of exposure to that natural person, it's considered that default status occurred for all exposures to that person.

- oo) **Small and medium sized entity - hereinafter: the SMEs)** the persons that are performing economic activities independently in order to execute profit through manufacturing, sale, or provision of services in the market, irrespective of their legal form. For the requirements of application of this Decision, a person may be deemed as a SME only if it meets the conditions under the Law on Accounting and Auditing in the FBiH;
- pp) **Officially supported export credits** - means loans or credits to finance the export of goods and services for which an official export credit agency provides guarantees, insurance or direct financing;
- qq) **Credit risk value adjustments** – the amount of booked expected credit losses formed in accordance with the Agency's regulations that define how expected credit losses shall be formed;
- rr) **External credit assessment institution (ECAI)** means a credit rating agency that is registered or certified in accordance with the EU Regulation on credit rating agencies;
- ss) **Nominated ECAI** means an ECAI nominated by a bank
- tt) **Underlying investment fund** - an investment fund in whose shares or stocks another investment fund is investing;
- uu) **Speculative immovable property financing** means loans for the purposes of the acquisition of or development or construction on land in relation to immovable property, or of and in relation to such property, with the intention of reselling for profit, where the repayment of the loan depends solely on the future sale of the immovable property in question;
- vv) **Transaction with settlement period**- a transaction under which one contractual party commits to delivering securities, commodities, or foreign currency, in exchange for cash funds, other financial instruments, or commodities, or vice versa, on the date of settlement or delivery that is specified in the contract, and that onsets later than the market standard for that specific type of transaction, or five working days after the date of concluding the transaction, whichever date onsets earlier;
- ww) **Free delivery** – a transaction that is realized so as that one contractual party executes the payment / delivery before the other contractual party performs its obligation under the contract;
- xx) **Margin lending transactions** - means transactions in which a bank extends credit in connection with the purchase, sale, carrying or trading of securities. Margin lending transactions do not include other loans that are secured by collateral in the form of securities;
- yy) **Financial instrument** is any of the following:
 - 1) a contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party;
 - 2) a financial derivative under Annex II of this Decision;
 - 3) any other financial instrument under Annex II of this Decision;
 - 4) a primary financial instrument and
 - 5) a cash instrument.

The instruments referred to in points 1), 2) and 3) are only financial instruments if their value is derived from the price of an underlying financial instrument or another underlying item, a rate, or an index;

- zz) **Financial derivatives** – a financial instrument or other agreement which have the three following characteristics:
- 1) its value changes as a reaction to changes in the determined interest rate, the price of the financial instrument, the price of commodity, exchange rate of foreign currencies, price index or rate price, credit rating or credit index, or another similar variable, under the condition, that in case of non-financial variable, that variable is not specified for either of the contractual parties
 - 2) it does not require an initial net investment or that investment is smaller than the one that would be necessary for other types of contracts for which one may expect that they would react in a similar manner to changes in market factors, and
 - 3) it shall be settled at some date in the future;
- aaa) **Underlying instrument** – security or other instrument the financial derivatives referred to:
- bbb) **Foreign exchange forward agreement** - shall be an agreement on purchase or sale of a certain amount of foreign currencies at an already agreed price on an already agreed date of maturity (longer than two working days). A forward agreement does not have a price that would need to be paid upon concluding the agreement (a premium), but as of the date of execution the liability has to be executed, regardless of whether the market price is more favourable than the agreed price of the forward or not.
- ccc) **Forward rate agreement** - an agreement on the basis of which one contractual party commits to pay to the other contractual party, on a specific date, interest calculated at the fixed rate for the period specified in the contract, and the other contractual party commits to pay interest on the amount specified in the contract at the interest rate that is in effect as of that date (for example, the fixed part and the variable item: EURIBOR, LIBOR, and similar.). On the date of the settlement, the amount of the payment shall be calculated on the basis of the balance between the determined interest rate and the interest rate that is in effect on that date
- ddd) **Futures agreement** - shall signify the right or the obligation of purchase or sale of a specific asset or instrument on a pre-agreed date (for example, foreign currency futures, interest futures, futures on share indices, futures on bonds, futures on gold, futures on agricultural products, and similar)
- eee) **Currency future (FX future or a foreign exchange future)** is a futures contract to buy or sell a specified amount of a particular currency in exchange for other currency at a set exchange rate and execution on a specific date in the future.
- fff) **Swap agreement** means an agreement between two parties to exchange sequences of cash flows in same or different currencies for a set period of time
- ggg) **Foreign currency swap (FX Swap)** is an agreement between two parties to exchange a specified amount of different currencies at a pre-agreed rates
- hhh) **Interest rate swap** is an agreement between two parties in which each party makes periodic interest payments to the other party. It serves for the purpose of hedging interest rate risk. The exchange of interest rates assume exchange of variable interest rates for fixed and vice versa. The instrument is used for adjustments of assets and liabilities currency mismatches, protection from interest rate rise (exchange of variable interest rate on long-term loan for a fixed one), as well as potential reduction of interest expense (exchange of a fixed interest rate on long-term loan for a variable on) in case of decline in referent interest rates (LIBOR, EURIBOR)
- iii) **Option** – is an agreement that give the buyer (the option holder) a right, but not the obligation of the call options) or the put options an underlying assets at pre-agreed price on specific day or within the period specified. The options may be an individual instruments or embedded to some other financial instruments;

- jjj) **Call option** is an agreement that give the option to a buyer (call option holder) the right, but not the obligation, to buy an underlying assets at a specified price or a price that could be obtained using agreed formula, on date agreed or within a specific time period.
- kkk) **Put option** is an option contract giving the buyer (a put option owner) the right, but not the obligation, to sell a specified amount of an underlying assets at a specified price or a price that could be obtained using agreed formula, on date agreed or within a specified time frame.
- lll) **Foreign exchange option (fx option)** – is an contract giving the buyer (fx option owner) the right to exchange money denominated in one currency into another currency at a pre-agreed exchange rate on a specified date;
- mmm) **Warrants** – are derivative securities giving the holder the right to buy the underlying instrument at a pre-agreed price until or on the date of expiry;
- nnn) **Hedge** – is a financial technique to mitigate risk of losses resulted from fluctuation of financial instrument value at the market, i.e. the position intended to offset risk elements between trading book and banking book positions or together;
- ooo) **Trade finance means financing**, including guarantees, connected to the exchange of goods and services through financial instruments of fixed short-term maturity, generally of less than one year, without automatic rollover;
- ppp) **Delta (δ)** – represents the price sensitivity option to minor price change of un underlying financial instrument (factor) to which the option relates;
- qqq) **List of recognized stock exchanges and clearing houses** is in Annex III of this Decision;
- rrr) **Stock exchange index** - a numerical indicator of price developments of the securities index basket at an individual stock exchange
- sss) **Regulated market** - is a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments in the system, in accordance with its non-discretionary rules, in a way that results in a financial instruments contract, in respect of the financial instruments admitted to trading under its rules and/or the system, and is authorised and functioning in a regular and timely manner in compliance to the relevant regulations;
- ttt) **Market operator** – is a person or persons who operates, i.e. manages the business on regulated market. The market operator may be the regulated the regulated market itself;
- uuu) **Convertible securities** - means a security which, at the option of the holder, may be exchanged for another security;
- vvv) **Repurchase transactions** means any transaction governed by a repurchase agreement or a reverse repurchase agreement
- www) **Simple repurchase agreement** means a repurchase transaction of a single type of asset;
- xxx) **Repurchase agreement and Reverse repurchase agreement** mean any agreement in which a bank or its counterparty transfers securities or commodities or guaranteed rights relating to ownership rights on securities or commodities, at which time the aforementioned right is guaranteed by a recognized stock exchange that has the right to those securities or commodities, and the agreement does not allow the bank to transfer or pledge individual securities or commodities to more than one contractual party at the same time, with an obligation to again redeem the aforementioned securities or commodities – or replacement securities or commodities that fit the same description at a price determined in advance, at a certain date in the future that is determined, or is yet to be determined by the person performing the transfer, at which time, for the bank selling the securities, it shall concern a repo agreement, and for the bank that is buying them it shall concern a reverse repo agreement

- yyy) **Agreement on securities or commodities lending or borrowing securities and commodities** shall signify all transactions under which the bank or other contractual party are transferring securities or commodities in exchange for corresponding instruments of security (collateral) and assuming the obligation that the borrower shall return securities or commodities in the same value at a certain date in future or when that is requested from it by the person performing the transfer;
- zzz) **Share index and its developments** - an indicator of behaviour of a specific market of shares. The index shall include the most representative shares of the specific market.
- aaaa) **Covered bonds** – are liabilities which issuance is governed by a specific law of the issuer home country, and which fulfil all of the following criteria:
- 1) for the purpose of protection of the ownership right of the issuer of covered bonds may only be a bank that is subject to supervision of a regulatory institution,
 - 2) funds acquired in the sale of covered bonds shall have to be invested in assets that provide sufficient coverage for liabilities assumed on the basis of covered bonds in their total amount, and
 - 3) covered bonds shall have to be covered by instruments of security and entitle the holder of covered bonds that in case of bankruptcy or liquidation of the issuer it has priority in collection of the principal and interest
- Covered bonds shall have to be included into the list of covered bonds, which also includes the list of authorized issuers and the type of instruments of security, which the members of the European Union are submitting to the European Union Commission, which submits those data to other members of the European Union
- bbbb) **Market maker** – is a company or an individual that stands ready every second of the trading day at the financial instrument market, ready to trade with a firm ask and bid price, buy and a sell price in a financial instrument, by prices set by itself, using its own funds;
- cccc) **Independent price verification** – IPV means the process by which market prices or marking to model inputs are regularly verified for accuracy and independence.
- dddd) **Positions held with trading intent means any of the following:**
- 1) proprietary positions and positions arising from client servicing and market making;
 - 2) positions intended to be resold short term;
 - 3) positions intended to benefit from actual or expected short term price differences between buying and selling prices or from other price or interest rate variations;
- eeee) **Member States** – in accordance with the EU regulation member states of the EU, and third countries are those which not member of the EU.
- ffff) **Secured lending transaction** means any transaction giving rise to an exposure secured by collateral which does not include a provision conferring upon the bank the right to additionally increase the existing collateral i.e. to receive margin at least daily;
- gggg) **Capital market-driven transaction** means any transaction giving rise to an exposure secured by collateral which includes a provision conferring upon the banks the right to receive margin at least daily;
- hhhh) **Margin agreement** means an agreement or provisions of an agreement under which one counterparty must supply collateral to a second counterparty when an exposure of that second counterparty to the first counterparty exceeds a specified collateral level.
- iiii) **Securities financing transaction** means a repurchase transaction, a securities or commodities lending or borrowing transaction, or a margin lending transaction;
- jjjj) **Netting set** means a group of transactions between a bank and a single counterparty that is subject to a legally enforceable bilateral netting arrangement, while each transaction that is not subject to a legally enforceable bilateral netting arrangement shall be treated as its own netting set.

kkkk) **Minority interest** means the amount of Common Equity Tier 1 capital of a subsidiary of a bank that is attributable to natural or legal persons other than those included in the prudential scope of consolidation of the bank;

I. REGULATORY CAPITAL AND CAPITAL REQUIREMENTS FOR BANKS

Article 3

Regulatory Capital

- (1) Regulatory capital of the bank is the amount of funding sources the bank shall maintain for safe and stable operations, i.e. fulfilment of obligations against creditors.
- (2) Regulatory capital is the sum of Common Equity Tier 1 and Tier 2 capital, after the regulatory adjustments.

Article 4

Tier 1 – T1

Tier 1 of a bank is a sum of Common Equity Tier 1, after regulatory adjustment and Additional Tier 1 after regulatory adjustment.

Article 5

Common equity Tier 1 (CET 1)

- (1) Common equity Tier 1 – CET 1 of a bank consists of the Common Equity Tier 1 items referred to in Article 6 of this Decision, after deductions for regulatory adjustments referred to in Article 9 of this Decision, and application of the temporary waiver for deduction from own funds referred to in Article 31 of this Decision. When calculating own funds, banks shall make adjustments pursuant to paragraph (2) of this Article, which relates to the provisions on cash flow hedges and changes in the value of own liabilities, and provisions on additional value adjustments under paragraph (3) of this Article.
- (2) Applying the provisions on cash flow hedges and changes in the value of own liabilities means that banks shall not include the following items in any element of own funds:
 - a) the fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value, including projected cash flows;
 - b) gains or losses on liabilities of the bank that are valued at fair value that result from changes in the own credit standing of the bank;
 - c) fair value gains and losses on derivative liabilities of the bank that result from changes in the own credit risk of the bank, where the bank shall not offset the fair value gains and losses arising from the bank's own credit risk with those arising from its counterparty's credit risk.
- (3) Applying the provisions on additional value adjustments assume that banks shall deduct from Common Equity Tier 1 capital the amount of any additional value adjustments, determined by application of own fund requirements for valuation under Article 117 of this Decision to all their assets measured at fair value.

Article 6

Common Equity Tier 1 items

- (1) Common Equity Tier 1 items of bank consist of the following:
 - a) capital instruments, provided that the conditions laid down in Article 7 of this Decision;
 - b) share premium accounts related to the instruments referred to in item a) of this paragraph;
 - c) retained earnings;
 - d) accumulated other comprehensive income;
 - e) other reserves;

- f) funds for general banking risk.
- (2) Retained earnings, accumulated other comprehensive income, other reserves and funds for general banking risk shall be recognised as Common Equity Tier 1 only where they are available to the bank for unrestricted and immediate use to cover risks or losses as soon as these occur.
- (3) Year-end profits may be included in Common Equity Tier 1 capital - retained earnings, where the following conditions are met:
 - a) those profits have been verified by persons independent of the bank that are responsible for the auditing of the accounts of that bank and who has obtained prior approval from the Agency to audit the bank's financial statements;
 - b) the competent body of the bank has taken a formal decision on the distribution of profits.

By way of derogation, a bank may include in the Common Equity Tier 1 - retained earnings interim profits before the bank has taken a formal decision only with the prior permission of the Agency. When submitting its application for prior permission, the bank shall provide the Agency with the evidence that:

 - a) those profits have been verified by persons independent of the bank that are responsible for the auditing of the accounts of that bank and who has obtained prior approval from the Agency to audit the bank's financial statements;
 - b) the bank has demonstrated to the satisfaction of the Agency that any foreseeable charge or dividend has been deducted from the amount of those profits.
- (4) Paragraph (1) point e) of this Article - other reserves, relates to any reserves established by banks against profit after tax, which includes: legal reserves, statutory reserves and other reserves established under profit in accordance to legislation.
- (5) Capital instruments may be included in Common Equity Tier 1 only upon the Agency grants permission to the bank under the procedure of determining the eligibility of Common Equity Tier 1 instruments of the bank, i.e. fulfilment of conditions laid down.

Article 7

Conditions to recognise Common Equity Tier 1 instruments

- (1) Capital instruments under Article 6, paragraph (1) point a) of this Decision shall qualify as Common Equity Tier 1 instruments only if all the following conditions are met:
 - a) the instruments are issued directly by the bank with the prior implementation of the procedure established under legislation of the FBiH, the Agency's regulations, constitutional or other acts of the bank;
 - b) the instruments are fully paid up and the acquisition of ownership of those instruments is not funded directly or indirectly by the bank, where only the part of the equity instrument that is fully paid up shall be eligible as a Common Equity Tier 1 instrument;
 - c) the instruments meet all the following conditions as regards their classification:
 - 1) they qualify as share capital under the legislation of the FBiH;
 - 2) they are classified as equity within the meaning of the applicable accounting framework;
 - 3) they are classified as equity capital for the purposes of determining balance sheet insolvency or liquidation of the bank, where applicable under national insolvency or liquidation law;
 - d) the instruments are clearly and separately disclosed on the balance sheet in the financial statements of the bank;
 - e) the instruments are perpetual;

- f) the principal amount of the instruments may not be reduced or repaid, except in either of the following cases:
 - 1) the liquidation of the bank;
 - 2) discretionary repurchases of the instruments or other discretionary means of reducing capital, where it is applicable under the existing legislation and where the bank has received the prior permission of the Agency;
 - g) the provisions governing the instruments do not indicate expressly or implicitly that the principal amount of the instruments would or might be reduced or repaid other than in the liquidation of the bank, and the bank does not otherwise provide such an indication prior to or at issuance of the instruments;
 - h) the instruments meet the following conditions as regards distributions:
 - 1) there is no preferential distribution treatment regarding the order of distribution payments, including in relation to other Common Equity Tier 1 instruments, and the terms governing the instruments do not provide preferential rights to payment of distributions;
 - 2) distributions to holders of the instruments may be paid only out of distributable items;
 - 3) the conditions governing the instruments do not include a cap or other restriction on the maximum level of distributions;
 - 4) the level of distributions is not determined on the basis of the amount for which the instruments were purchased at issuance;
 - 5) the conditions governing the instruments do not include any obligation for the bank to make distributions to their holders and the bank is not otherwise subject to such an obligation;
 - 6) non-payment of distributions does not constitute an event of default of the bank;
 - 7) the cancellation of distributions imposes no restrictions on the bank;
 - i) Compared to all the capital instruments issued by the bank, the instruments absorb the first and proportionately greatest share of losses as they occur, and each instrument absorbs losses to the same degree as all other Common Equity Tier 1 instruments;
 - j) the instruments rank below (less priority) all other claims in the event of bankruptcy or liquidation of the bank;
 - k) the instruments entitle their owners to a claim on the residual assets of the bank, which, in the event of its liquidation and after the payment of all senior claims, is proportionate to the amount of such instruments issued and is not fixed or subject to a cap;
 - l) the instruments are not secured, or subject to a guarantee that enhances the seniority of the claim by any of the following:
 - 1) the bank or its subsidiaries;
 - 2) the parent undertaking of the bank or its subsidiaries;
 - 3) the parent financial holding company or its subsidiaries;
 - 4) the mixed activity holding company or its subsidiaries;
 - 5) the mixed financial holding company and its subsidiaries;
 - 6) any undertaking that has close links with the entities referred to in points 1) to 5);
 - m) the instruments are not subject to any arrangement, contractual or otherwise, that enhances the seniority of claims under the instruments in bankruptcy or liquidation.
- (2) Notwithstanding to paragraph (1) point f) of this Article, the principal amount of the Common Equity Tier 1 instrument would be reduced only within the resolution procedure or write down of underlying instrument required by the resolution authority responsible for the bank resolution under legislation.
- (3) Notwithstanding to paragraph (1) point g) of this Article, the principal amount of the Common Equity Tier 1 instrument would or might be reduced only within a resolution

procedure or as a consequence of a write down of the instruments required by the resolution authority responsible for the bank resolution under legislation.

Article 8

Consequences of the conditions for Common Equity Tier 1 instruments ceasing to be met

In the case of a Common Equity Tier 1 instrument cease to meet conditions for Common Equity Tier 1 instrument under Article 7, the following shall apply:

- a) that instrument shall immediately cease to qualify as a Common Equity Tier 1 instrument;
- b) The share premium accounts that relate to that instrument shall immediately cease to qualify as Common Equity Tier 1 items.

Article 9

Common Equity Tier 1 - regulatory adjustments

- (1) Bank shall deduct from Common Equity Tier 1 items the following:
 - a) losses for the current financial year;
 - b) uncovered losses from previous years;
 - c) intangible assets, pursuant to Article 10 of this Decision;
 - d) deferred tax assets, pursuant to Article 11. of this Decision;
 - e) any tax charge relating to Common Equity Tier 1 items foreseeable at the moment of its calculation, except where the bank suitably adjusts the amount of Common Equity Tier 1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses;
 - f) direct and indirect holdings by a bank of own Common Equity Tier 1 instruments (i.e. repurchased own treasury stocks) including own Common Equity Tier 1 instruments that a bank is under an actual or contingent obligation to purchase by virtue of an existing contractual obligation
 - g) direct or indirect holdings of the Common Equity Tier 1 instruments of financial sector entity, where a financial sector entity with which bank has reciprocal cross holdings, and where the Agency determines it does not realistic and acceptable increase of own funds in accordance to the legislative and regulatory provisions;
 - h) direct or indirect holdings of the Common Equity Tier 1 instruments of financial sector entity, where a bank has a significant investment in an entity, pursuant to Article 12 of this Decision;
 - i) direct or indirect holdings of the Common Equity Tier 1 instruments of financial sector entity, where a bank does not have a significant investment in an entity, pursuant to Article 13 of this Decision;
 - j) the amount of items required to be deducted from Additional Tier 1 items pursuant to Article 19, paragraph (1) of this Decision, that exceeds the Additional Tier 1 capital of a bank;
 - k) The amount of qualifying holdings in an undertaking that is not a financial sector entity. Where the bank decide to express this item as non-deductible, it shall assign it the risk weight of 1250%;
 - l) Free deliveries according to Article 104, paragraph (2) of this Decision. Where the bank decide to express this items as non-deductible it shall assign the risk weight of 1250% for that exposure;
 - m) The amount of exposures resulting from securitisation operations. Where the bank decides not to present this item as deducted from the own funds, it shall assign the risk weight of 1250% to that exposure.

- (2) Bank shall make deductions from the Common Equity Tier 1 based on the gross principle, and the application of the exemption with regard to possibility to use net principle, the Agency may approve provided that conditions set under regulations are met.

Article 10

Deduction of intangible assets

- (1) Bank shall determine the amount of intangible assets to be deducted in accordance with the following:
 - a) the amount to be deducted shall be reduced by the amount of associated deferred tax liabilities that would be extinguished if the intangible assets became impaired or were derecognised under the applicable accounting framework;
 - b) The amount to be deducted shall include goodwill included in the valuation of significant investments of the institution.
 - c) the amount to be deducted shall be reduced by the amount of the accounting revaluation of the subsidiaries' intangible assets derived from the consolidation of subsidiaries attributable to persons other than the undertakings included in the consolidation pursuant to regulations governing supervision on a consolidated basis.
- (2) In regard to application of paragraph (1) of this Article, the amount to be deducted by the bank shall be applied with the exception of prudently valued software assets the value of which is not negatively affected by resolution, insolvency or liquidation of the bank, whose calculation will be prescribed by the Agency through a special instruction.

Article 11

Deductions of deferred tax assets that rely on future profitability

- (1) Bank shall determine the amount of deferred tax assets that rely on future profitability that require deduction in accordance with this Article.
- (2) The amount of deferred tax assets that rely on future profitability shall be calculated without reducing it by the amount of the associated deferred tax liabilities of the bank.
- (3) The Agency may allow that amount of deferred tax assets that rely on future profitability may be reduced by the amount of the associated deferred tax liabilities of the bank, provided the following conditions are met:
 - a) the entity has a legally enforceable right under applicable national law to set off those current tax assets against current tax liabilities;
 - b) the deferred tax assets and the deferred tax liabilities relate to taxes levied by the same tax authority and on the same taxable entity;
 - c) Where the bank submitted to the Agency the decision (the act) from the competent tax authority on right to set off deferred tax assets with associated deferred tax liabilities pursuant to items a) and b) of this paragraph.
- (4) Associated deferred tax liabilities of the bank used for the purposes of paragraph 3 of this Article may not include deferred tax liabilities that reduce the amount of intangible assets required to be deducted.
- (5) The following items shall not be deducted from own funds and shall be subject to a risk weight in accordance with Chapter related to own funds requirements for credit risk, as applicable:
 - a) overpayments of tax by the bank for the current year;
 - b) Current year tax losses carried back to previous years that give rise to a claim on, or a receivable from, a central government, regional government or local tax authority, if it's possible in accordance with the provisions of applicable tax regulations.

- (6) Deferred tax assets that do not rely on future profitability shall be limited to deferred tax assets arising from temporary differences and represents deduction where all the following conditions are met:
- a) they are automatically and mandatorily replaced without delay with a tax credit in the event that the bank reports a loss when the annual financial statements of the bank are formally approved, or in the event of liquidation or bankruptcy of the bank;
 - b) a bank shall be able under the applicable national tax law to offset a tax credit referred to in point (a) against any tax liability of the bank or any other undertaking included in the same consolidation as the bank for tax purposes under that law or any other undertaking subject to the supervision on a consolidated basis;
 - c) where the amount of tax credits referred to in point (b) of this paragraph exceeds the tax liabilities referred to in that point, any such excess is replaced without delay with a direct claim on the central government or the entity governments in accordance to tax regulations.
- (7) Bank shall apply a risk weight of 100 % to deferred tax assets where the conditions laid down in paragraph (6) of this Article are met.

Article 12

Deduction of significant investment in a financial sector entity

For the purposes of deduction, a significant investment of a bank in a financial sector entity shall arise where any of the following conditions is met:

- a) bank owns more than 10 % of the Common Equity Tier 1 instruments issued by that entity;
- a) bank has close links with that entity and owns Common Equity Tier 1 instruments issued by that entity;
- b) bank owns Common Equity Tier 1 instruments issued by that entity and the entity is not included in consolidation for the purpose of supervision, but is included in the same accounting consolidation as the banks for the purposes of financial reporting under the applicable accounting framework

Article 13

Deduction of holdings of Common Equity Tier 1 instruments where a bank does not have a significant investment in a financial sector entity

- (1) Where the bank does not have a significant investment in a financial sector entity, the aggregate amount of holdings of the Common Equity Tier 1 of the bank shall be calculated in a way that a portion of the aggregate amount of the direct and indirect holdings by the bank of the Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments which exceeds 10 % of the Common Equity Tier 1 multiply with ratio of the direct and indirect holdings of the bank in Common Equity Tier 1 instruments of these entities and the aggregate amount of the direct and indirect holdings to all capital instruments of these entities.
- (2) The portion of the aggregate amount of direct and indirect holdings to Common Equity Tier 1 instruments, Additional Tier 1 and Tier 2 instruments of the financial sector entity where the bank does not have a significant investment that is equal to or less than 10 % of the Common Equity Tier 1 shall not be deducted from the Common Equity Tier 1 but the risk weight applicable under standardized approach for calculation of own funds requirements for credit risk shall be applied to those investments.
- (3) The aggregate amount of holdings of Common Equity Tier 1 instruments of financial sector entities to which risk weights under standardized approach for calculation of own funds requirements for credit risk shall be applied shall be calculated by multiplying the amount from paragraph (2) of this Article with the proportion of the aggregate amount of direct and

indirect holdings by the bank of the Common Equity Tier 1 instruments of financial sector entities in which the bank does not have a significant investment represented by each Common Equity Tier 1 instrument held.

- (4) For the purpose of paragraphs (1) and (3) of this Article, CET 1 capital shall be calculated in a way that sum of CET 1 items under Article 6 of this Decision shall be reduced by the regulatory adjustments under Article 9 points a), b), c), e), f), g), l) and m) of this Decision, and furthermore make adjustment under Article 5, paragraphs (2) and (3) of this Decision.

Article 14

Requirement for deduction where consolidation is applied

- (1) For the purposes of calculating own funds on an individual basis and a sub-consolidated basis, bank subject to the consolidation for supervisory purposes shall not deduct holdings of own funds instruments issued by financial sector entities included in the scope of the consolidation for supervisory purposes when calculating own funds, unless the Agency determines those deductions to be required for specific purposes, such as structural separation of banking activities or resolution planning.
- (2) For the purposes of calculating own funds on an individual basis or sub-consolidated basis, and on the basis of legislation governing consolidated supervision, the Agency may by a specific regulation set the additional conditions on which basis it may permit bank not to deduct the holdings of own funds instruments of a financial sector entity in which the parent bank, parent financial holding company or parent mixed financial holding company has a significant investment.

Article 15

Additional Tier 1 (AT 1)

The Additional Tier 1 capital of a bank shall consist of Additional Tier 1 items after the regulatory adjustment referred to in Article 19 and application of temporary waivers for deduction from own funds items referred to in Article 31.

Article 16

Additional Tier 1 items

- (1) Additional Tier 1 items shall consist of the following:
- a) capital instruments, where the conditions for Additional Tier 1 instruments laid down in paragraph (2) of this Article are met
 - b) the share premium accounts related to the instruments referred to in point (a) of this paragraph
Instruments included under point (a) shall not qualify as Common Equity Tier 1 or Tier 2 Items.
- (2) Capital instruments shall qualify as Additional Tier 1 instruments only if the following conditions are met:
- a) the instruments are issued and fully paid up;
 - b) the instruments are not owned by any of the following:
 - 1) the bank its subsidiaries;
 - 2) un undertaking in which the bank has a participation in the form of ownership, direct or by way of control, of 20% or more of the voting rights or capital of that undertaking
 - c) the acquisition of ownership of the instruments is not funded directly or indirectly by the bank;
 - d) the instruments rank below Tier 2 instruments in the event of the bankruptcy of the bank,

- e) the instruments are neither secured nor subject to a guarantee that enhances the seniority of the claims by any of the following:
 - 1) the bank or its subsidiaries;
 - 2) the parent undertaking of the bank or its subsidiaries;
 - 3) the parent financial holding company or its subsidiaries;
 - 4) the mixed activity holding company or its subsidiaries;
 - 5) the mixed financial holding company or its subsidiaries;
 - 6) any undertaking that has close links with entities referred to in points 1) to 5);
 - f) the instruments are not subject to any contractual or other arrangement that otherwise enhances the seniority of the claim under the instruments in case of bankruptcy or bank liquidation
 - g) the instruments are perpetual and the provisions governing them include no incentive for the institution to redeem them;
 - h) where the instruments include one or more early redemption options including call options, the options are exercisable at the sole discretion of the issuer;
 - i) the instruments may be called, redeemed or repurchased only where the conditions laid down in Article 29 of this Decision are met, and not before five years after the date of issuance, except where the conditions laid down in Article 30, paragraph (3) of this Decision are met;
 - j) the provisions governing the instruments do not indicate explicitly or implicitly that the instruments would be called, redeemed or repurchased, as applicable, by the bank other than in the case of the insolvency or liquidation of the bank and the bank does not otherwise provide such an indication;
 - k) the bank does not indicate explicitly or implicitly that the competent authority would consent to a request to call, redeem or repurchase the instruments;
 - l) distributions under the instruments meet the following conditions:
 - 1) they are paid out only of distributable items;
 - 2) the level of distributions made on the instruments will not be amended on the basis of the credit standing of the bank or its parent undertaking;
 - 3) the provisions governing the instruments give the bank full discretion at all times to cancel the distributions on the instruments for an unlimited period and on a non-cumulative basis, and the bank may use such cancelled payments without restriction to meet its obligations as they fall due;
 - 4) cancellation of distributions does not constitute an event of default of the bank;
 - 5) the cancellation of distributions imposes no restrictions on the provisions governing this instrument shall not include requirements from paragraph (3) of this Article;
 - m) the instruments do not contribute to a determination that the liabilities of a bank exceed its assets, where such a determination constitutes a test of insolvency under applicable law;
 - n) the provisions governing the instruments require that, upon the occurrence of a trigger event, the principal amount of the instruments be written down on a permanent or temporary basis or the instruments be converted to Common Equity Tier 1 instruments
 - o) there are no the provisions that could hinder the recapitalisation of the institution under the paragraph (3) of this Article;
 - p) the instruments are not subject to set-off or netting arrangements that would undermine their capacity to absorb losses.
- (3) In regard to application of paragraph (2) point 1) item 5) and point o) of this Article, the provisions governing Additional Tier 1 instruments, shall in particular not include the following:

- a) a requirement for distributions on the instruments to be made in the event of a distribution being made on an instrument issued by the bank that ranks to the same degree as, or more junior than, an Additional Tier 1 instrument, including a Common Equity Tier 1 instrument;
 - b) a requirement for the payment of distributions on Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments to be cancelled in the event that distributions are not made on those Additional Tier 1 instruments;
 - c) An obligation to substitute the payment of interest or dividend by a payment in any other form. The bank shall not otherwise be subject to such an obligation.
- (4) Capital instruments that meet the conditions from paragraph (2) of this Article may be included in Additional Tier 1 capital by the bank only with the prior permission of the Agency.

Article 17

Write down or conversion of Additional Tier 1 instruments

- (1) In reference to the implementation of the provisions referred to in Article 16 (2) item n) defining write down or conversion the following provisions shall apply to Additional Tier 1 instruments:
- a) a trigger event occurs when the Common Equity Tier 1 capital ratio of the bank referred to in Article 38 of this Decision falls below either of the following:
 - 1) 7,687 %;
 - 2) A level higher than 7,687 % where determined by the bank and specified in the provisions governing the instrument;
 - b) banks may specify in the provisions governing the instrument one or more trigger events in addition to that referred to in point (a);
 - c) where the provisions governing the instruments require them to be converted into Common Equity Tier 1 instruments upon the occurrence of a trigger event, those provisions shall specify either of the following:
 - 1) the rate of such conversion and a limit on the permitted amount of conversion;
 - 2) a range within which the instruments will convert into Common Equity Tier 1 instruments;
 - d) where the provisions governing the instruments require their principal amount to be written down upon the occurrence of a trigger event, the write down shall reduce all the following:
 - 1) the claim of the holder of the instrument in the bankruptcy or liquidation of the bank;
 - 2) the amount required to be paid in the event of the call or redemption of the instrument;
 - 3) The distributions made on the instrument.
- (2) Where the Additional Tier 1 instruments have been issued by a subsidiary undertaking established outside BiH, the 7,687% or higher trigger referred to in point a) of this paragraph shall be calculated in accordance with the national law of that country or contractual provisions governing the instruments, provided that the Agency is satisfied that those provisions are at least equivalent to the requirements set out in this Article.
- (3) Write down or conversion of an Additional Tier 1 instrument shall, under the applicable accounting framework, generate items that qualify as Common Equity Tier 1 items.
- (4) The amount of Additional Tier 1 instruments recognised in Additional Tier 1 items is limited to the minimum amount of Common Equity Tier 1 items that would be generated if the principal amount of the Additional Tier 1 instruments were fully written down or converted into Common Equity Tier 1 instruments.

- (5) The aggregate amount of Additional Tier 1 instruments that is required to be written down or converted upon the occurrence of a trigger event shall be no less than the lower of the following:
 - a) the amount required to restore fully the Common Equity Tier 1 ratio of the institution to 7,687%;
 - b) The full principal amount of the instrument.
- (6) When a trigger event occurs banks shall do the following:
 - a) immediately inform the Agency;
 - b) inform the holders of the Additional Tier 1 instruments;
 - c) write down the principal amount of the instruments, or convert the instruments into Common Equity Tier 1 instruments without delay, but no later than within one month, in accordance with the requirement laid down in this Article.
- (7) A bank issuing Additional Tier 1 instruments that convert to Common Equity Tier 1 on the occurrence of a trigger event shall ensure that its authorised share capital is at all times sufficient, for converting all such convertible Additional Tier 1 instruments into shares if a trigger event occurs. All necessary authorisations shall be obtained at the date of issuance of such convertible Additional Tier 1 instruments. The bank shall maintain at all times the necessary prior authorisation to issue the Common Equity Tier 1 instruments into which such Additional Tier 1 instruments would convert upon occurrence of a trigger event.
- (8) A bank issuing Additional Tier 1 instruments that convert to Common Equity Tier 1 on the occurrence of a trigger event shall ensure that there are no procedural impediments to that conversion by virtue of its incorporation or statutes or contractual arrangements.

Article 18

Consequences of the conditions for Additional Tier 1 instruments ceasing to be met

The following shall apply where, in the case of an Additional Tier 1 instrument, the conditions laid down in Article 16(2) cease to be met:

- a) that instrument shall immediately cease to qualify as an Additional Tier 1 instrument;
- b) the part of the share premium accounts that relates to that instrument shall immediately cease to qualify as an Additional Tier 1 item.

Article 19

Additional Tier 1 – regulatory adjustments

- (1) Banks shall deduct the following from Additional Tier 1 items:
 - a) Direct and indirect holdings by a bank of own Additional Tier 1 instruments, including own Additional Tier 1 instruments that a bank could be obliged to purchase as a result of existing contractual obligations;
 - b) Direct or indirect holdings of the Additional Tier 1 instruments of financial sector entities with which the institution has reciprocal cross holdings that the Agency considers to have been designed to inflate artificially the own funds;
 - c) the amount of direct or indirect holdings of the Additional Tier 1 instruments of financial sector entities, where a bank does not have a significant investment in those entities, provided that the amount is determined in accordance with the provisions of Article 20;
 - d) direct or indirect holdings of the Additional Tier 1 instruments of financial sector entities where the bank has a significant investment in those entities, excluding underwriting positions held for five working days or fewer;
 - e) the amount of items required to be deducted from Tier 2 items pursuant to Article 25 that exceed the Tier 2 capital of the bank;

- f) Any tax charge relating to Additional Tier 1 items foreseeable at the moment of its calculation, except where the bank suitably adjusts the amount of Additional Tier 1 items insofar as such tax charges reduce the amount up to which those items may be applied to cover risks or losses.
- (2) For the purpose of determining deductions from Additional Tier 1, banks shall calculate holdings on the basis of gross principle, and the application of the exemption with regard to possibility to use net principle, the Agency may approve provided that conditions under regulations are met.

Article 20

Deduction of Tier 2 instruments where a bank does not have a significant investment in a financial sector entity

- (1) Where the bank does not have a significant investment in a financial sector entity, the aggregate amount of investments to Tier 2 instruments of these entities, which shall be deducted from Tier 2 of the bank, is calculated by multiplying a portion of the aggregate amount of direct and indirect holdings to Common Equity Tier 1 instruments, Additional Tier 1 and Tier 2 instruments exceeding 10% of the Common Equity Tier 1 of the bank with a ratio of direct and indirect holdings of a bank to Additional Tier 1 instruments of these financial sector entities and the aggregate amount of direct and indirect holding to all capital instruments of those entities.
- (2) The portion of the aggregate amount of direct and indirect holdings to Common Equity Tier 1 instruments, Additional Tier 1 and Tier 2 instruments of the financial sector entity where the bank does not have a significant investment that is equal to or less than 10 % of the Common Equity Tier 1 shall not be deducted from the own funds but the risk weight applicable under standardise approach for calculation of own funds requirements for credit risk shall be applied to those investments.
- (3) The aggregate amount of holdings of Additional Tier 1 instruments of financial sector entities in which the bank does not have a significant investment to which risk weights under standardised approach for calculation of own funds requirements for credit risk shall be applied shall be calculated by multiplying the amount from paragraph (2) of this Article with the proportion of the aggregate amount of direct and indirect holdings by the bank of the Additional Tier 1 instruments of financial sector entities in which the bank does not have a significant investment represented by each Additional Tier 1 instrument held.
- (4) For the purpose of paragraphs (1) and (3) of this Article, CET 1 capital shall be calculated in a way that sum of CET 1 items under Article 6 of this Decision shall be reduced by the regulatory adjustments under Article 9 points a), b), c), e), f), g), l) and m) of this Decision, and furthermore make adjustment under Article 5, paragraphs (2) and (3) of this Decision

Article 21

Tier 2 capital (T 2)

- (1) Tier 2 capital – T 2 of the bank shall consist of the Tier 2 items referred to in Article 22 of the bank after the deductions referred to in Article 25 and application of temporary waiver for deduction from own funds referred to in Article 31 of this Decision.
- (2) Tier 2 capital cannot be greater than one third of Tier 1 capital.

Article 22

Tier 2 items

- (1) Tier 2 items shall consist of the following:
 - a) capital instruments, provided that the conditions laid down under paragraph (2) of this Article are met and to the extent specified in Article 23 of this Decision;

- b) the share premium accounts related to instruments referred to in point a) of this paragraph;
 - c) general credit risk adjustments for credit losses of up to 1,25 % of risk-weighted exposure amounts calculated in accordance with Article 53 of this Decision.
- (2) Capital instruments shall qualify as Tier 2 instruments provided the following conditions are met:
- a) the instruments are directly issued by a bank and fully paid-up;
 - b) the instruments are not owned by any of the following:
 - 1) the bank or its subsidiaries
 - 2) an undertaking in which the bank has participation in the form of ownership, direct or indirect, of 20 % or more of the voting rights or capital of that undertaking
 - c) the acquisition of ownership of the instruments is not funded directly or indirectly by the bank
 - d) the claim on the principal amount of the instruments under the provisions governing the instruments ranks below any claim from eligible liabilities instruments;
 - e) the claim on the principal amount of the instruments is wholly subordinated to claims of all non- subordinated creditors the instruments are not secured, or subject to own funds guarantees or guarantees, mortgages or any other way that enhances the seniority of the claim by any of the following:
 - 1) the bank or its subsidiaries;
 - 2) the parent undertaking of the bank or its subsidiaries;
 - 3) the parent financial holding company or its subsidiaries;
 - 4) the mixed activity holding company or its subsidiaries
 - 5) the mixed financial holding company or its subsidiaries; and
 - 6) any undertaking that has close links with entities referred to in points 1) to 5);
 - f) are not subject to any provision that otherwise enhances the seniority of the claim under the instruments respectively;
 - g) have an original maturity of at least five years;
 - h) the provisions governing the instruments do not include any incentive for their principal amount to be redeemed or repaid, as applicable by the bank prior to their maturity;
 - i) where the instruments include one or more early repayment options, including call options, the options are exercisable at the sole discretion of the issuer taking into account the fulfilment of the conditions set out in point j) of this paragraph;
 - j) the instruments may be called, redeemed, repaid or repurchased early only where the conditions set out in Article 29 of this Decision are met, and not before five years after the date of issuance, except where the conditions set out in Article 30, paragraph (3) are met;
 - k) the provisions governing the instruments do not indicate explicitly or implicitly that the instruments would be called, redeemed, repurchased or repaid early before their contractual maturity date, other than in the case of the insolvency or liquidation of the bank and the bank does not otherwise provide such an indication;
 - l) deviation from the future scheduled payment of interest or principal is possible only in a case of bankruptcy or liquidation of the bank;
 - m) the agreed conditions related to the interest or dividend payments, will not be amended on the basis of the credit standing of the institution or its parent undertaking;
 - n) the instruments are not subject to set-off or netting arrangements that would undermine their capacity to absorb losses.
- (3) The instruments and subordinated debts which meet conditions referred to in point (2) of this Article can be included into Tier 2 capital, only upon the bank grants a prior consent from the Agency.

Article 23

Amortisation of Tier 2 instruments

- (1) The full amount of Tier 2 instruments with a residual maturity of more than five years shall qualify as Tier 2 items.
- (2) The extent to which Tier 2 instruments qualify as Tier 2 items during the final five years of maturity of the instruments is calculated by multiplying the item referred to in point a) of this Article with the item referred to in point b) as follows.
 - a) the nominal amount of the instruments on the first day of the final five-year period of their contractual maturity divided by the number of calendar days in that period;
 - b) The number of remaining calendar days of contractual maturity of the instruments.

Article 24

Consequences of the conditions for Tier 2 instruments ceasing to be met

Where in the case of a Tier 2 instrument the conditions laid down in Article 22 (2) cease to be met, the following shall apply:

- a) that instrument shall immediately cease to qualify as a Tier 2 instrument,
- b) The part of the share premium accounts that relate to that instrument shall immediately cease to qualify as Tier 2 items.

Article 25

Tier 2 capital- regulatory adjustments

- (1) The following shall be deducted from Tier 2 items:
 - a) direct or indirect holdings by an institution of own Tier 2 instruments, including own Tier 2 instruments that a bank could be obliged to purchase as a result of existing contractual obligations;
 - b) direct or indirect holdings of the Tier 2 instruments of financial sector entities with which the bank has reciprocal cross holdings that the Agency considers to have been designed to inflate artificially the own funds of the institution;
 - c) the amount of bank's direct or indirect holdings of the Tier 2 instruments of financial sector entities, where a bank does not have a significant investment in those entities, wherein the amount shall be determined subject to the Article 26 of this Decision and
 - d) direct or indirect holdings by the bank of the Tier 2 instruments of financial sector entities where the bank has a significant investment in those entities, excluding underwriting positions held for fewer than five working days.
- (2) Bank shall calculate deduction of holdings of Tier 2 instruments on the basis of the gross positions, and provided that all conditions are met for exceptions on the basis of net position, the Agency may specify it by the special regulation.

Article 26

Deduction of Tier 2 instruments where a bank does not have a significant investment in financial sector entity

- (1) Where a bank does not have a significant investment in financial sector entity, the aggregate amount of investments in Tier 2 instruments of these entities which is to be deducted from Tier 2 capital of the bank shall be calculated by way that part of the aggregate amount of the direct or indirect holdings of the Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments which exceeds 10 % of the Common Equity Tier 1 items of the bank multiply with quotient of direct and indirect holdings of the bank into Tier 2 instruments of financial sector entities and aggregate direct and indirect holdings to all capital instruments of these entities.

- (2) The portion of the aggregate amount of direct and indirect holdings to Common Equity Tier 1 instruments, Additional Tier 1 and Tier 2 instruments of the financial sector entity where the bank does not have a significant investment that is equal to or less than 10 % of the Common Equity Tier 1 shall not be deducted from the own funds but the risk weight applicable under standardise approach for calculation of own funds requirements for credit risk shall be applied to those investments.
- (3) The aggregate amount of holdings of Tier 2 instruments of financial sector entities to which risk weights under standardised approach applied, shall be calculated by multiplying the amount from paragraph (2) of this Article with the proportion of the aggregate amount of direct and indirect holdings by the bank of the Tier 2 instruments of financial sector entities in which the bank does not have a significant investment represented by each Tier 2 instrument held.
- (4) For the purpose of paragraphs (1) and (3) of this Article, CET 1 capital shall be calculated in a way that sum of CET 1 items under Article 6 of this Decision shall be reduced by the regulatory adjustments under Article 9 points a), b), c), e), f), g), l) and m) of this Decision, and furthermore make adjustment under Article 5, paragraphs (2) and (3) of this Decision.

Article 27

Distributions on own funds instruments

- (1) Capital instruments for which a bank has the sole discretion to decide to pay distributions in a form other than cash or an own funds instrument shall not be capable of qualifying as Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments unless the bank has received the prior permission of the Agency.
- (2) The Agency shall grant the permission referred to in paragraph 1 only where it considers all the following conditions related to the sole discretion or form of distributions are met:
 - a) the ability of the bank to cancel payments would not be adversely affected;
 - b) the ability of the instrument to absorb losses would not be adversely affected;
 - c) The quality of the capital instrument would not otherwise be reduced.
- (3) Capital instruments for which a legal person other than the bank issuing them has the discretion to decide or require that the payment of distributions on the instrument shall be made in a form other than cash or an own funds instrument shall not be capable of qualifying as Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments

Article 28

Holdings of capital instruments issued by regulated financial sector entities that do not qualify as regulatory capital

Banks shall not deduct from any element of own funds direct or indirect holdings of capital instruments issued by a regulated financial sector entity that do not qualify as regulatory capital of that entity. Banks shall apply risk weights to such holdings in accordance with the Standardised Approach for calculation of own funds requirements for credit risk.

Article 29

Conditions for reducing own funds

- A bank shall require the prior permission of the Agency to do either or both of the following:
- a) reduce, redeem or repurchase Common Equity Tier 1 instruments issued by the bank in a manner that is permitted under applicable bank law in the F BiH,
 - b) reduce, distribute or reclassify as another own funds item the share premium accounts related to own funds instruments;
 - c) effect the call, redemption, repayment or repurchase of Additional Tier 1 instruments or Tier 2 instruments as applicable, prior to the date of their contractual maturity

Article 30

Supervisory permission for reducing own funds

- (1) The Agency shall grant permission for a bank to reduce, call, redeem, prepay or repurchase Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments, or to reduce, distribute or reclassify related share premium accounts, where any of the following conditions is met:
 - a) where a bank earlier than or at the same time as the action related to reduction of own funds referred to in Article 29, the bank replaces the instruments or the related share premium accounts with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the bank;
 - b) Where the bank has demonstrated to the satisfaction of the Agency that the own funds of the bank would, following the action in question, exceed the requirements laid down in Article 38 of this Decision and the combined buffer requirement as defined in Article 45 of this Decision and the eventual additional capital requirements against the bank, in addition to risk coverage minimum requirements to which the bank has or might be exposed, in accordance to legislation.
- (2) When assessing the sustainability of the replacement instruments for the income capacity of the bank, the Agency shall consider the extent to which those replacement capital instruments or share premium accounts would be more costly for the bank than those they would replace.
- (3) The Agency may permit banks to call, redeem, repay or repurchase Additional Tier 1 or Tier 2 instruments or related share premium accounts before five years of the date of issue only where, in addition to the conditions laid down in paragraph (1) of this Article, also one of the following conditions met:
 - a) there is a change in the regulatory classification of those instruments that would be likely to result in their exclusion from own funds or reclassification as a lower quality form of own funds, and both the following conditions are met:
 - 1) the Agency considers such a change to be sufficiently certain;
 - 2) the bank demonstrates to the satisfaction of the Agency that the regulatory reclassification of those instruments was not reasonably foreseeable at the time of their issuance;
 - b) there is a change in the applicable tax treatment of those instruments which the bank demonstrates to the satisfaction of the Agency is material and was not reasonably foreseeable at the time of their issuance.
 - c) before or at the same time as the action referred to in Article 29, the bank replaces the instruments or related share premium accounts with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the bank and the Agency has permitted that action on the basis of the determination that it would be beneficial from a prudential point of view and justified by exceptional circumstances;
 - d) the Additional Tier 1 or Tier 2 instruments are repurchased for market making purposes, which may be subsequently prescribed by the Agency with the fulfilment of the conditions.

Article 31

Temporary waiver from deduction from own funds

- (1) Where a bank holds capital instruments that qualify as own funds instruments in a financial sector entity temporarily and the competent authority deems those holdings to be for the purposes of a financial assistance operation designed to reorganise and restore the viability of that entity, the Agency may waive on a temporary basis the provisions on deduction that would otherwise apply to those instruments.

- (2) In regard to application of paragraph (1) of this Article and in respect of the temporary waivers, the Agency shall comply with the legal regulation governing financial assistance operation to reorganise and restore the viability of the financial sector entity.

Article 32

The own funds requirement

A bank's own funds may not fall below the amount of initial capital which subject to the legislative provisions is required at the time of its authorisation.

Article 33

Continuing review of quality of own funds

The Agency shall continuously review the quality of own funds, acting in accordance with legislative and regulatory provisions.

Article 34

Minority interests that qualify for inclusion in consolidated Common Equity Tier 1 capital

- (1) Minority interests shall comprise the sum of Common Equity Tier 1 items of a subsidiary where the following conditions are met:
- a) the subsidiary is one of the following:
 - 1) an institution;
 - 2) an intermediate financial holding company or intermediate mixed financial holding company that is subject to the prudential requirements for credit institutions in the EU on a sub-consolidated basis, or an intermediate investment holding company that is subject to the prudential requirements for investment firms in the EU on a consolidated basis;
 - 3) an investment firm;
 - 4) an intermediate financial holding company in a third country, provided that that intermediate financial holding company is subject to prudential requirements as stringent as those applied to credit institutions of that third country and provided that the EC has adopted a decision determining that those prudential requirements are at least equivalent to those applied in the EU;
 - b) the subsidiary is included fully in the consolidation for supervisory purposes;
 - c) the Common Equity Tier 1 items, referred to in the introductory part of this paragraph, are owned by persons other than the undertakings included in the consolidation for supervisory purposes.
- (2) Minority interests that are funded directly or indirectly by the parent undertaking of the bank, or its subsidiaries shall not qualify as consolidated Common Equity Tier 1 capital.
- (3) Qualifying Additional Tier 1, Tier 1, Tier 2 capital and qualifying own funds shall comprise the minority interest, Additional Tier 1 or Tier 2 instruments, as applicable, plus the related share premium accounts, of a subsidiary where the conditions set out in paragraph (1) points a) and b) of this Article are met and if Common Equity Tier 1, Additional Tier 1 and Tier 2 items are owned by persons other than the undertakings included in the consolidation for supervisory purposes.

Article 35

Minority interests included in consolidated Common Equity Tier 1 capital

- (1) A bank may decide to calculate for subsidiaries referred to in Article 34, paragraph (1) point a) the amount of minority interests that it includes in consolidated Common Equity Tier 1 capital.

- (2) Bank shall determine the amount of minority interests of a subsidiary that is included in consolidated Common Equity Tier 1 capital by subtracting from the minority interests of that undertaking the result of multiplying the amount referred to in point a) by the percentage referred to in point b) as follows:
- a) the Common Equity Tier 1 capital of the subsidiary minus the lower of the following:
 - 1) the amount of Common Equity Tier 1 capital of that subsidiary required to meet the following:
 - the required Common Equity Tier 1 capital ratio, additional capital requirements based on the SREP assessment, combined buffer requirement and any additional supervisory regulations in countries outside BiH insofar as those requirements are to be met by Common Equity Tier 1 capital,
 - where the subsidiary is an investment firm, the sum of all requirements insofar as those requirements are to be met by Common Equity Tier 1 capital.
 - 2) the amount of consolidated Common Equity Tier 1 capital that relates to that subsidiary that is required on a consolidated basis to meet the required Common Equity Tier 1 capital ratio, additional capital requirements based on the SREP assessment, combined buffer requirement and any additional local supervisory regulations in countries outside BiH insofar as those requirements are to be met by Common Equity Tier 1 capital;
 - b) the minority interests of the subsidiary expressed as a percentage of all Common Equity Tier 1 items of that undertaking.
- (3) The calculation referred to in paragraphs (1) and (2) shall be undertaken on a sub-consolidated basis for each subsidiary referred to in Article 34, paragraph (1) point a).
- (4) A bank may choose not to undertake this calculation for a subsidiary referred to in this Article. Where a bank takes such a decision, the minority interest of that subsidiary may not be included in consolidated Common Equity Tier 1 capital.

Article 36

Qualifying Tier 1 instruments included in consolidated Tier 1 capital

- (1) A bank shall determine the amount of qualifying Tier 1 capital of a subsidiary that is included in consolidated own funds by subtracting from the qualifying Tier 1 capital of that undertaking the result of multiplying the amount referred to in point a) by the percentage referred to in point b) as follows:
- a) the Tier 1 capital of the subsidiary minus the lower of the following:
 - 1) the amount of Tier 1 capital of the subsidiary required to meet the following:
 - the required Tier 1 capital ratio, additional capital requirements based on the SREP assessment, combined buffer requirement and any additional supervisory regulations in countries outside BiH insofar as those requirements are to be met by Tier 1 capital,
 - where the subsidiary is an investment firm, the sum of all requirements insofar as those requirements are to be met by Tier 1 capital.
 - 2) the amount of consolidated Tier 1 capital that relates to the subsidiary that is required on a consolidated basis to meet the required Tier 1 capital ratio, additional capital requirements based on the SREP assessment, combined buffer requirement and any additional supervisory regulations in countries outside BiH insofar as those requirements are to be met by Tier 1 capital;
 - b) the qualifying Tier 1 capital of the subsidiary expressed as a percentage of all Tier 1 items of that undertaking.
- (2) The calculation referred to in paragraph (1) shall be undertaken on a sub-consolidated basis for each subsidiary referred to in Article 34, paragraph (1) point a).

- (3) A bank may choose not to undertake this calculation for a subsidiary referred to in Article 34, paragraph (1) point a). Where a bank takes such a decision, the qualifying Tier 1 capital of that subsidiary may not be included in consolidated Tier 1 capital.
- (4) A bank shall determine the amount of qualifying Tier 1 capital of a subsidiary that is included in consolidated Additional Tier 1 capital by subtracting from the qualifying Tier 1 capital of that undertaking included in consolidated Tier 1 capital the minority interests of that undertaking that are included in consolidated Common Equity Tier 1 capital.

Article 37

Qualifying own funds included in consolidated own funds

- (1) A bank shall determine the amount of qualifying own funds of a subsidiary that is included in consolidated own funds by subtracting from the qualifying own funds of that undertaking the result of multiplying the amount referred to in point a) by the percentage referred to in point b):
 - a) the own funds of the subsidiary minus the lower of the following:
 - 1) the amount of own funds of the subsidiary required to meet the following:
 - the required total capital ratio, additional capital requirements based on the SREP assessment, combined buffer requirement and any additional supervisory regulations in countries outside BiH,
 - where the subsidiary is an investment firm, the sum of all requirements insofar as those requirements are to be met by own funds;
 - 2) the amount of own funds that relates to the subsidiary that is required on a consolidated basis to meet the required total capital ratio, additional capital requirements based on the SREP assessment, combined buffer requirement and any additional supervisory regulations in countries outside BiH;
 - b) the qualifying own funds of the undertaking, expressed as a percentage of the sum of all own fund's items, excluding the general credit risk adjustments of up to 1,25 % of risk-weighted exposure amounts of that undertaking.
- (2) The calculation referred to in paragraph (1) of this Article shall be undertaken on a sub-consolidated basis for each subsidiary referred to in Article 34, paragraph (1) point a).
- (3) A bank may choose not to undertake this calculation for a subsidiary referred to in Article 34, paragraph (1) point a). Where a bank takes such a decision, the qualifying own funds of that subsidiary may not be included in consolidated own funds.
- (4) A bank shall determine the amount of qualifying own funds of a subsidiary that is included in consolidated Tier 2 capital by subtracting from the qualifying own funds of that undertaking that are included in consolidated own funds the qualifying Tier 1 capital of that undertaking that is included in consolidated Tier 1 capital.

Article 38

Own funds requirements for banks

- (1) Subject to Article 32 and requirements for derogation for small trading book business under Article 39, banks shall at all times satisfy the following own funds requirements:
 - a) a Common Equity Tier 1 capital ratio of 6,75%;
 - b) a Tier 1 capital ratio of 9%;
 - c) a total capital ratio 12%;
 - d) a leverage ratio of 6% as a support to risk-based own funds requirements.
- (2) Bank shall calculate the capital ratios referred to in point (1) of this Article as follows:
 - a) the Common Equity Tier 1 capital ratio is the Common Equity Tier 1 capital of the bank expressed as a percentage of the total risk exposure amount;

- b) the Tier 1 capital ratio is the Tier 1 capital of the bank expressed as a percentage of the total risk exposure amount;
 - c) the total capital ratio is the own funds of the bank expressed as a percentage of the total risk exposure amount.
- (3) Total risk exposure amount shall be calculated as the sum of points a) to f) of this paragraph after taking into account the provisions laid down in paragraph (4) of this Article:
- a) the risk weighted exposure amounts for credit risk, subject to Chapter III of this Decision which relates to own funds requirements for credit risk and exposure risk based on free deliveries subject to Article 104 of this Decision in respect of all the business activities of a bank, excluding risk weighted exposure amounts from the trading book business of the bank;
 - b) the own funds requirements for the trading-book business of an institution for the following:
 - i. market risk in accordance with Chapter VIII of this Decision related to own funds requirement for market risk;
 - ii. large exposures exceeding the limits as determined in accordance with Decision on large exposure;
 - c) the own funds requirements for market risk as determined in accordance with the provisions from the part of this Decision relating to market risks for all business activities that are subject to foreign exchange risk or commodity risk;
 - d) the own funds requirements for settlement risk calculated in accordance with Chapter VI of this Decision, with the exception of Article 104 of this Decision
 - e) the own funds requirements for operational risk subject to Chapter VII of this Decision;
 - f) the risk-weighted exposure amounts determined in accordance with Articles 50 and 51 of this Decision related to the own funds requirement for counterparty risk, arising from the trading book business of the bank, which relates to financial derivatives listed in Annex II of this Decision, repurchase transactions, securities or commodities lending or borrowing transactions based on securities or commodities, long settlement transactions and margin lending.
- (4) The following provisions shall apply in the calculation of the total exposure amount referred to in paragraph (3) of this Article:
- a) the own funds requirements referred to in paragraph (3) of this Article, points c) and e) including those risk arising from all the business activities of a bank (items in trading book and banking book)
 - b) bank shall multiply the own funds requirements from paragraph (3) of this Article, points b) to e) with 8,33.
- (5) Calculation of capital requirements for a bank, pursuant to the provisions of this Decisions, is subject to an independent review conducted by internal and external audit, and in accordance to regulations governing the function of an internal and external audit in banks.
- (6) A bank shall calculate the leverage ratio referred to in paragraph (1) point d) of this Article in accordance with the provisions of Article 41 of this Decision.

Article 39

Derogation from own funds requirements for small trading book business

- (1) By way of derogation from Article 38, paragraph (3) point b) of this Decision, a bank may calculate the own funds requirement for its trading-book business in accordance with paragraph (2) of this Article, provided that the size of the bank's on- and off-balance-sheet trading-book business is equal to or less than both of the following thresholds on the basis

of an assessment carried out on a monthly basis using the data as of the last day of the month:

- a) 5% of the bank's total assets;
 - b) EUR 50 million (or the equivalent in domestic currency).
- (2) Where both conditions set out in points a) and b) of paragraph (1) are met, a bank may calculate the own funds requirement for its trading-book business as follows:
- a) for the contracts listed in point 1 of Annex II of this Decision, contracts relating to equities which are referred to in point 3 to 8 of that Annex, a bank may exempt those positions from the own funds requirement referred to in Article 38, paragraph (3) point b) of this Decision;
 - b) for trading book positions other than those referred to in point a) of this paragraph, a bank may replace the own funds requirement for trading book business with the calculated own funds requirement for credit risk.
- (3) For the purposes of paragraph (1) of this Article, a bank shall calculate the size of its on- and off-balance-sheet trading book business on the basis of data as of the last day of each month in accordance with the following requirements:
- a) all the positions assigned to the trading book in accordance with Article 116 of this Decision shall be included in the calculation except for positions concerning foreign exchange and commodities;
 - b) all positions included in the calculation in accordance with point a) of this paragraph shall be valued at their market value on that given date. Where the market value of a position is not available on a given date, a bank shall take a fair value for the position on that date. Where the market value and fair value of a position are not available on a given date, a bank shall take the most recent of the market value or fair value for that position;
 - c) the absolute value of long positions shall be summed with the absolute value of short positions.
- (4) Where the conditions set out in paragraph (1) of this Article are met, Article 114, paragraph (5) and Article 115 of this Decision shall not apply.
- (5) A bank shall notify the Agency when it calculates, or ceases to calculate, the own funds requirements of its trading-book business in accordance with paragraph (2) of this Article.
- (6) A bank that no longer meets one or more of the conditions set out in paragraph (1) of this Article shall immediately notify the Agency thereof.
- (7) A bank shall cease to calculate the own funds requirements of its trading-book business in accordance with paragraph (2) of this Article within three months of one of the following occurring:
- a) the bank does not meet the conditions set out in point a) or b) of paragraph (1) of this Article for three consecutive months;
 - b) the bank does not meet the conditions set out in point a) or b) of paragraph (1) of this Article during more than 6 out of the last 12 months.
- (8) Where a bank has ceased to calculate the own funds requirements of its trading-book business in accordance with this Article, it shall only be permitted to calculate the own funds requirements of its trading-book business in accordance with this Article where it demonstrates to the competent authority that all the conditions set out in paragraph (1) of this Article have been met for an uninterrupted full-year period.
- (9) A bank shall not enter, buy or sell a trading-book position for the sole purpose of complying with any of the conditions set out in paragraph (1) of this Article during the monthly assessment.

- (10) By way of derogation, the Agency may adopt a decision requiring a bank to calculate the own funds requirements for market risk even if the bank does not exceed the limits referred to in paragraph (7) of this Article.

Article 40

Reporting on own funds requirements and additional financial information

- (1) Bank shall report to the Agency on calculation of own funds requirements under the Article 38 of this Decision, in accordance to regulation governing the uniform formats, frequencies and dates of reporting.
- (2) Agency may require a bank to provide additional reports on financial information, in order to obtain a comprehensive view of the risk profile of the bank, and to prescribe other specific reporting requirements.

II. FINANCIAL LEVERAGE, CAPITAL BUFFERS AND CAPITAL CONSERVATION MEASURES

FINANCIAL LEVERAGE

Article 41

Calculation of financial leverage ratio

- (1) Banks shall calculate a financial leverage ratio under the methodology specified in paragraphs (2) to (12) of this Article.
- (2) The financial leverage ratio shall be calculated as a bank's capital measure divided by that bank's total exposure measure and shall be expressed as a percentage. Banks shall calculate a financial leverage ratio on reporting reference date.
- (3) For the purpose of paragraph (2) of this Article, capital measure shall be the Tier 1 capital.
- (4) The total exposure measure is the sum of the exposure values of:
- a) Assets referred to in paragraph (5) of this Article;
 - b) Financial derivatives under paragraph (10) of this Article;
 - c) Add-ons for counterparty's credit risk of securities financing transactions referred to in paragraph (11) of this Article;
 - d) Off-balance sheet items under paragraph (12) of this Article.
- (5) In regard to application of paragraph (4) point a) of this Article, the asset exposure value is defined in Article 49, paragraph (1) of this Decision, and securities financing transactions shall not be netted except in the case of fulfilment of all the conditions laid down in the Agency's bylaws relating to the liquidity risk management of the bank.
- (6) By way of derogation from paragraph (4) point d) of this Article, an off-balance-sheet item that is treated as a derivative in accordance with the applicable accounting framework shall be considered a derivative in paragraph (4) point b) of this Article.
- (7) A bank shall calculate the total exposure measure in accordance with the following principles:
- a) credit risk mitigation techniques shall not be used to reduce the total exposure measure
 - b) assets shall not be netted with liabilities.
- (8) By way of derogation from paragraph (7) point b) of this Article, a bank may reduce the exposure value of a pre-financing loan or an intermediate loan by the positive balance on the savings account of the debtor to which the loan was granted and only include the resulting amount in the total exposure measure, provided that all the following conditions are met:
- a) the granting of the loan is conditional upon the opening of the savings account at the bank granting the loan and both the loan and the savings account are regulated by the same sectoral law;

- b) the balance on the savings account cannot be withdrawn, in part or in full, by the debtor for the entire duration of the loan;
 - c) the bank can unconditionally and irrevocably use the balance on the savings account to settle any claim originating under the loan agreement in cases regulated by the sectoral law referred to in point a) of this paragraph, including the case of non-payment by or the insolvency of the debtor.
- (9) In regard to application of paragraph (8) of this Article, “pre-financing loan” or “intermediate loan” means a loan that is granted to the borrower for a limited period of time in order to bridge the borrower's financing gaps until the final loan is granted in accordance with the criteria laid down in the sectoral law regulating such transactions.
- (10) Bank shall determine the exposure values for financial derivatives under Annex II of this Decision, including off-balance sheet items, pursuant to Article 50 and 51. provided that the same method is used to determine the financial derivatives value for the purpose of calculation the own funds requirements.
- (11) In addition to the calculation of the exposure value of securities financing transactions in accordance with paragraph (5) of this Article, a bank shall calculate the add-on for counterparty’s credit risk calculated on a transaction-by-transaction basis in accordance with the following formula:

$$E_i^* = \max\{0, E_i - C_i\}$$

where:

- E_i^* = the add-on;
- i = the index that denotes the transaction;
- E_i = the fair value of securities or cash lent to the counterparty under transaction i;
- C_i = the fair value of securities or cash received from the counterparty under transaction i.

- (12) Bank shall determine the exposure value of off-balance sheet items, pursuant to Article 49, paragraph (1) of this Decision, to which the following shall apply:
- a) conversion factor of 10 % to low-risk off-balance-sheet items referred in Annex I of this Decision;
 - b) conversion factor of 20 % to medium/low risk off-balance-sheet items referred in Annex I of this Decision;
 - c) conversion factor of 50 % to medium risk off-balance-sheet items referred in Annex I of this Decision;
 - d) conversion factor of 100 % to all other off-balance-sheet items referred in Annex I of this Decision;

Article 42

Exposures excluded from the total exposure measure

- (1) By way of derogation from Article 41, paragraph (4) of this Decision, a bank may exclude any of the following exposures from its total exposure measure:
- a) the assets deducted in the calculation of the capital measure referred to in Article 41, paragraph (3) of this Decision;
 - b) the guaranteed parts of exposures arising from export credits that meet both of the following conditions:

- 1) the guarantee is provided by an eligible provider of unfunded credit protection in accordance with Articles 201 and 202, including by export credit agencies or by central governments.
- 2) a 0 % risk weight applies to the guaranteed part of the exposure in accordance with Article 54, paragraph (2) or (4) or Article 56, paragraph (4) of this Decision;

Article 43

Reporting on financial leverage

Bank is obliged to report to the Agency on the financial leverage rate and its constituent parts in accordance with the bylaw that regulates more closely the uniform forms, frequency and dates of reporting

CAPITAL BUFFERS

Article 44

Requirement to maintain a capital conservation buffers

- (1) Banks shall maintain capital conservation buffer as Common Equity Tier 1 equal to 2,5% of their total risk exposure amount calculated in accordance with Article 38, paragraph (3) of this Decision.
- (2) The Capital conservation buffer referred to in paragraph (1) of this Article shall consist only of Common Equity Tier 1 items, after meeting the Common Equity Tier 1 ratio of 6,75% in accordance with Article 38, paragraph (1) point a) and may not be used to maintain the tier and own funds rates.
- (3) Where the Agency, on the basis of an assessment of the risks to which the bank is exposed or could be exposed, requires a higher Common Equity Tier capital ratio than the prescribed minimum of 6,75%, then the capital conservation buffer represents a part of Common Equity Tier 1 capital above the ratio determined by the Agency for the bank concerned.
- (4) Bank which do not maintain capital buffers under paragraph (1) of this Article, shall apply capital conservation measures under Article 46, paragraphs (2) and (3) of this Decision and capital conservation plan under Article 47 of this Decision.

Article 45

Requirements for other capital buffers

- (1) The Agency shall establish the list of systemically important banks under the methodology defined jointly with the Central Bank of BiH, Deposit Insurance Agency of BiH and the Banking Agency of Republika Srpska.
- (2) The methodology for identification of systemically important banks in BiH takes into account the criteria which under standards of international institutions responsible for financial stability have been adjusted to specific of the banking system in BiH.
- (3) The Agency may establish a specific regulatory requirement for the bank identified as being systemically important bank.
- (4) The Agency may impose a capital buffer ratio for a systemically important bank between 0% and 3% of the total risk exposure amount, calculated in accordance with Article 38 paragraph (3).
- (5) The Agency shall publish and review capital buffers for a systemically important bank at least once a year.
- (6) Countercyclical capital buffer and the systemic risk buffer shall be imposed by specific regulation when required.
- (7) Combined buffer requirement is the Common Equity Tier 1 capital (expressed as a percentage in relation to the total risk exposure amount calculated in accordance to Article

38 paragraph (3) of this Decision) required to meet the requirement for the capital conservation buffer extended by the following buffers, as applicable:

- a) a bank-specific countercyclical capital buffer;
 - b) a systemically important bank capital buffer;
 - c) a systemic risk buffer.
- (8) Application of the bank-specific countercyclical capital buffer, a systemically important bank capital buffer and a systemic risk buffer shall be prescribed by legal regulations and special bylaws adopted on the basis of a legal regulation.
- (9) Where a bank fails to meet fully the requirement under paragraph (7) of this Article, it shall be subject to the restrictions on distributions set out in Article 46, paragraphs (2) and (3) of this Decision.

CAPITAL CONSERVATION MEASURES

Article 46

Restrictions on distributions

- (1) Bank that meets the combined buffer requirement shall not make a distribution in connection with Common Equity Tier 1 capital to an extent that would decrease its Common Equity Tier 1 capital to a level where the combined buffer requirement is no longer met.
- (2) Bank that fails to meet the combined buffer requirement shall calculate the Maximum Distributable Amount ('MDA') and notify the Agency of that MDA.
- (3) Bank shall not undertake any of the following actions before they have calculated the MDA:
 - a) make a distribution of profit in connection with Common Equity Tier 1 capital;
 - b) create an obligation to pay variable remuneration or discretionary pension benefits or pay variable remuneration if the obligation to pay was created at a time when the bank failed to meet the combined buffer requirements referred to in Article 45 of this Decision;
 - c) make payments on Additional Tier 1 instruments.
- (4) MDA shall be calculated by multiplying the sum calculated in accordance with paragraph (5) of this Article by the factor determined in accordance with paragraph (6) of this Article. The MDA shall be reduced by any of the actions referred to in point a), b) or c) of the paragraph (3) of this Article.
- (5) The sum to be multiplied in accordance with paragraph (4) of this Article shall consist of:
 - a) interim profits not included in Common Equity Tier 1 capital pursuant to Article 6 paragraph (2) and (3) of this Decision that have been generated since the most recent decision on the distribution of profits or any of the actions referred to in point a), b) or c) of the paragraph (3) of this Article; and
 - b) year-end profits not included in Common Equity Tier 1 capital pursuant to Article 6, paragraph (2) and (3) of this Decision, that have been generated since the most recent decision on the distribution of profits or any of the actions referred to in point a), b) or c) of paragraph (3) of this Articleminus amounts which would be payable by tax if the items specified in points a) and b) of this paragraph were to be retained.
- (6) The factor shall be determined as follows:
 - a) where the Common Equity Tier 1 capital maintained by the bank which is not used to meet the own funds requirement under Article 38, paragraph (1) points a) to c) of this Decision and additional own funds requirements following the supervisory review and assessment process of the bank, expressed as a percentage of the total risk exposure amount calculated in accordance with Article 38, paragraph (3) of this Decision, is

within the first (that is, the lowest) quartile of the combined buffer requirement, the factor shall be 0;

- b) where the Common Equity Tier 1 capital maintained by the bank which is not used to meet the own funds requirement under Article 38, paragraph (1) points a) to c) of this Decision and additional own funds requirements following the supervisory review and assessment process of the bank, expressed as a percentage of the total risk exposure amount calculated in accordance with Article 38, paragraph (3) of this Decision, is within the second quartile of the combined buffer requirement, the factor shall be 0,2;
- c) where the Common Equity Tier 1 capital maintained by the institution which is not used to meet the own funds requirement under Article 38, paragraph (1), points a) to c) of this Decision and additional own funds requirements following the supervisory review and assessment process of the bank, expressed as a percentage of the total risk exposure amount calculated in accordance with Article 38, paragraph (3) of this Decision, is within the third quartile of the combined buffer requirement, the factor shall be 0,4;
- d) where the Common Equity Tier 1 capital maintained by the institution which is not used to meet the own funds requirement under Article 38, paragraph (1) points a) to c) of this Decision and additional own funds requirements following the supervisory review and assessment process of the bank, expressed as a percentage of the total risk exposure amount calculated in accordance with Article 38, paragraph (3) of this Decision, is within the fourth (that is, the highest) quartile of the combined buffer requirement, the factor shall be 0,6;
- e) The lower and upper bounds of each quartile of the combined buffer requirement shall be calculated as follows:

$$\text{Lower bound of quartile} = \frac{\text{Combined buffer requirement}}{4} \cdot (Q_n - 1)$$

$$\text{Upper bound of quartile} = \frac{\text{Combined buffer requirement}}{4} \cdot Q_n$$

where „Qn” indicates the ordinal number of the quartile concerned.

- (7) The restrictions imposed by this Article shall only apply to payments that result in a reduction of Common Equity Tier 1 capital or in a reduction of profits, and where a suspension of payment or failure to pay does not constitute an event of default or a condition for the commencement of proceedings under the insolvency regime. The Agency shall lay down by a specific regulation obligation of a bank related to recovery plans.
- (8) Where a bank fails to meet the combined buffer requirement and intends to distribute any of its distributable profits or undertake an action referred to in points (a), (b) and (c) of the paragraph 3 of this Article, it shall notify the Agency and provide the following information
 - a) the amount of capital maintained by the bank, subdivided as follows
 - 1) Common Equity Tier 1 capital,
 - 2) Additional Tier 1 capital,
 - 3) Tier 2 capital;
 - b) the amount of its interim and year-end profits;
 - c) the MDA calculated in accordance with paragraph (4) of this Article;
 - d) the amount of distributable profits it intends to allocate between the following:
 - 1) dividend payments,
 - 2) share buybacks,
 - 3) payments on Additional Tier 1 instruments.

- 4) the payment of variable remuneration or discretionary pension benefits, whether by creation of a new obligation to pay, or payment pursuant to an obligation to pay created at a time when the bank failed to meet its combined buffer requirements.
- (9) Banks shall maintain adequate internal systems to ensure that the amount of distributable profits and the MDA are calculated accurately, and shall be able to demonstrate that accuracy to the Agency on request.
- (10) For the purposes of paragraph (1) and (2) of this Article, a distribution in connection with Common Equity Tier 1 capital shall include the following:
 - a) a payment of cash dividends;
 - b) a distribution of fully or partly paid bonus shares or other capital instruments referred to in Article 6 paragraph (1) point a) of this Decision;
 - c) a redemption or purchase by an institution of its own shares or other capital instruments referred to in Article 6, paragraph (1) point a) of this Decision by a bank;
 - d) a repayment of amounts paid up in connection with capital instruments referred to in Article 6 of this Decision, paragraph (1) point a);
 - e) a distribution of items referred to in Article 6 of this Decision, paragraph (1) points b) to e).

Article 47

Capital conservation plan

- (1) Where a bank fails to meet its combined buffer requirement, it shall prepare a capital conservation plan and submit it to the Agency no later than five working days after it identified that it was failing to meet that requirement, unless the Agency authorises a longer delay up to 10 days. The Agency shall grant such authorisations only on the basis of the individual situation of a bank and taking into account the scale and complexity of the bank's activities.
- (2) The capital conservation plan referred to in paragraph (1) of this Article shall include the following:
 - a) estimates of income and expenditure and a forecast balance sheet;
 - b) measures to increase the capital ratios of the bank;
 - c) a plan and timeframe for the increase of own funds with the objective of meeting fully the combined buffer requirement;
 - d) any other information that the Agency considers to be necessary to carry out the assessment required by paragraph (3) of this Article.
- (3) The Agency shall assess the capital conservation plan, and shall approve the plan only if it considers that the plan, if implemented, would be reasonably likely to conserve or raise sufficient capital to enable the bank to meet its combined buffer requirements within a period which the Agency considers appropriate.
- (4) If the Agency does not approve the capital conservation plan in accordance with paragraph (3) of this Article, it shall impose one or both of the following:
 - a) require the institution to increase own funds to specified levels within specified periods;
 - b) Impose more stringent restrictions on distributions than those required by Article 46 of this Decision.

III. CAPITAL REQUIREMENTS FOR CREDIT RISK

Article 48

Approaches to credit risk

- (1) Banks shall apply the Standardised Approach to calculate capital requirements for credit risk for their risk-weighted exposure amounts for the purposes of Article 38, paragraph (3) points a) and f) of this Decision.

- (2) For the purposes of calculating capital requirements for credit risk, exposures to third country investment firms and exposures to third country credit institutions and exposures to third country clearing houses and exchanges shall be treated as exposures to institution, only if the third country applies to that entity the prudential and supervisory requirements that are at least equivalent to those applied in the EU.
- (3) For the purpose of the previous paragraph the Agency applies decision of the EC as to whether a third country applies prudential and supervisory requirements at least equivalent to those applied in the EU in accordance with Annex IV of this Decision.

Article 49

Exposure value

- (1) The exposure value of an asset item shall be its accounting value remaining after provisions, additional value adjustments in accordance with Article 5, paragraph (3) of this Decision and other own funds reductions related to the asset items. The exposure value of an off-balance sheet item listed in Annex I of this Decision shall be its accounting value after deduction of loss provisioning for off-balance sheet exposures, multiplied by the following conversion factors:
 - a) 100% if it is a full-risk item;
 - b) 50% if it is a medium-risk item;
 - c) 20% if it is a medium/low-risk item;
 - d) 0% if it is a low-risk item.The off-balance sheet items shall be assigned to risk categories as indicated in Annex 1 of this Decision.
- (2) When a bank is using the Financial Collateral Comprehensive Method under Article 92 of this Decision, the exposure value of securities or commodities sold, posted or lent under a repurchase transaction or under a securities or commodities lending or borrowing transaction, and margin lending transactions shall be increased by the volatility adjustment appropriate to such securities or commodities as prescribed in Articles 92 to 93 of this Decision.
- (3) The exposure value of a derivative instrument listed in Annex II of this Decision shall be determined in accordance with methods for calculating exposure values from Articles 50 and 51 of this Decision, if it is derivatives that represent trading book items. If the financial derivatives referred to in Annex II of this Decision represent the banking book items, then the calculation of the exposure amount of that item shall use the replacement cost referred to in Article 51, paragraph (3) of this Decision.
- (4) The exposure value of repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions may be determined in accordance to the part of the Decision which relates to credit risk mitigation techniques (CRM) or in accordance with Articles 50 and 51 of this Decision.
- (5) Where an exposure is subject to funded credit protection, the exposure value applicable to that item may be amended in accordance with the part of Decision which relates to CRM techniques.

Article 50

Methods for calculating exposure values of financial derivatives

- (1) The bank shall determine the exposure value for the financial derivatives listed in Annex II of this Decision using the original exposure method according to Article 51 of this Decision and based on the threshold defined in paragraph (3) of this Article.
- (2) A bank may determine the exposure value of repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin

- lending transactions in accordance with CRM techniques (Chapter V of this Decision) instead of making use of Article 51 of this Decision.
- (3) A bank shall calculate the exposure value of its financial derivative positions listed in Annex II of this Decision in accordance with the original exposure method set out in Article 51 of this Decision, provided that the size of its on- and off-balance-sheet derivative business is equal to or less than both of the following thresholds on the basis of an assessment carried out on a monthly basis using the data as of the last day of the month:
 - a) 5 % of the bank's total assets;
 - b) EUR 100 million (or the equivalent in domestic currency).
 - (4) For the purposes of paragraph (3) of this Article, a bank shall calculate the size of its on- and off-balance-sheet derivative business on the basis of data as of the last day of each month in accordance with the following requirements:
 - a) financial derivative positions shall be valued at their market values on that given date. Where the market value of a position is not available on a given date, a bank shall take a fair value for the position on that date. Where the market value and fair value of a position are not available on a given date, a bank shall take the most recent of the market value or fair value for that position;
 - b) the absolute value of long financial derivative positions shall be summed with the absolute value of short financial derivative positions;
 - c) all financial derivative positions shall be included, except credit derivatives that are recognised as internal hedges against non-trading book credit risk exposures.
 - (5) Where the financial derivative business on a consolidated basis does not exceed the thresholds set out in paragraph (3) of this Article, a bank which is included in the consolidation and exceeds those thresholds on an individual basis, may, subject to the approval of the Agency, instead choose to apply the method that would apply on a consolidated basis.
 - (6) A bank that no longer meets the conditions set out in paragraph (3) of this Article shall immediately notify the Agency thereof and cease to calculate the exposure values of its financial derivative positions in accordance with Article 51 of this Decision, within three months of one of the following occurring:
 - a) the bank does not meet the conditions set out in paragraph (3) point a) or b) of this Article for three consecutive months;
 - b) the bank does not meet the conditions set out in paragraph (3) point a) or b) of this Article, for more than six of the preceding 12 months.
 - (7) The Agency may subsequently prescribe additional requirements in terms of the procedure for the calculation of exposures of financial derivatives in case of crossing the thresholds defined in paragraph (3) of this Article, and reporting thereon, depending on the justification of the introduction of such requirements.
 - (8) Where a bank has ceased to calculate the exposure values of its financial derivative positions in accordance with paragraph (3) of this Article, it shall only be permitted to resume calculating the exposure value of its financial derivative positions using the same method where it demonstrates to the Agency that all the conditions set out in paragraph (3) of this Article have been met for an uninterrupted period of one year.
 - (9) A bank shall not enter into a financial derivative transaction or buy or sell a derivative instrument for the sole purpose of complying with any of the conditions set out in paragraph (3) during the monthly assessment.
 - (10) When calculating risk-weighted exposure amounts for counterparty risk of items in the trading book, a bank shall comply with the following principles:

- a) the bank shall not use the Financial Collateral Simple Method set out in Article 91 of this Decision for the recognition of the effects of financial collateral;
- b) in the case of repurchase transactions and securities or commodities lending or borrowing transactions booked in the trading book, the bank may recognise as eligible collateral all financial instruments and commodities that are eligible to be included in the trading book;
- c) for the purposes of calculating volatility adjustments where such financial instruments or commodities which are not eligible under Chapter V of this Decision are lent, sold or provided, or borrowed, purchased or received by way of collateral or otherwise under such a transaction, and the bank is using the Supervisory Volatility Adjustments Approach under Article 93 of this Decision, the bank shall treat such instruments and commodities in the same way as non-main index equities listed on a recognised exchange.

Article 51 Original Exposure Method

- (1) A bank shall calculate an exposure value separately for each derivative transaction, which shall be treated as its own netting set.
- (2) A bank shall calculate the exposure value of the transaction in accordance with the original exposure method for the counterparty's credit risk as follows:

$$\text{Exposure value} = \alpha \cdot (\text{RC} + \text{PFE})$$

Where:

- RC = the replacement cost calculated in accordance with paragraph (3) of this Article
- PFE = potential future exposure calculated in accordance with paragraph (4) of this Article
- α = 1,4

- (3) A bank shall calculate the replacement cost as follows:

$$\text{RC} = \max\{\text{CMV}, 0\}$$

Where:

- RC = the replacement cost
- CMV = the current market value

In order to determine the replacement cost, the bank shall update current market values of derivatives at least monthly.

- (4) The potential future exposure of a single transaction is its notional amount multiplied by:
 - a) the product of 0,5 % and the residual maturity of the transaction expressed in years for interest-rate derivative contracts;
 - b) the product of 6 % and the residual maturity of the transaction expressed in years for credit derivative contracts;
 - c) 4 % for foreign-exchange derivatives;
 - d) 18 % for gold and commodity derivatives other than electricity derivatives;
 - e) 40 % for electricity derivatives;
 - f) 32 % for equity derivatives;
- (5) A bank shall determine the notional amount for derivative contracts referred to in paragraph (4) of this Article as follows:
 - a) where the notional amount of a transaction is not fixed until its contractual maturity:
 - 1) for deterministic notional amounts, the notional amount shall be the weighted average of all the deterministic values of notional amounts until the contractual maturity of the transaction, where the weights are the proportion of the time period during which each value of notional amount applies;

- 2) for stochastic notional amounts, the notional amount shall be the amount determined by fixing current market values within the formula for calculating the future market values;
 - b) for contracts with multiple exchanges of the notional amount, the notional amount shall be multiplied by the number of remaining payments still to be made in accordance with the contracts;
 - c) for contracts that provide for a multiplication of the cash-flow payments, the notional amount shall be adjusted by the bank to take into account the effects of the multiplication on the risk structure of those contracts.
- (6) The adjusted notional amount for derivative contracts referred to in paragraph (4) point c) of this Article shall be determined as follows:
- a) where the transaction consists of one payment leg, the adjusted notional amount shall be the notional amount of the derivative contract;
 - b) where the transaction consists of two payment legs and the notional amount of one payment leg is denominated in the bank's reporting currency, the adjusted notional amount shall be the notional amount of the other payment leg;
 - c) where the transaction consists of two payment legs and the notional amount of each payment leg is denominated in a currency other than the bank's reporting currency, the adjusted notional amount shall be the largest of the notional amounts of the two payment legs after those amounts have been converted into the bank's reporting currency at the prevailing spot exchange rate.
- (7) A bank shall calculate the adjusted notional amount for derivative contracts referred to in paragraph (4) points d) to f) of this Article as the product of the market price of one unit of the underlying instrument of the transaction and the number of units in the underlying instrument referenced by the transaction. If the transaction is contractually expressed as a notional amount, the bank shall use that notional amount of the transaction as the adjusted notional amount and not the number of units of the underlying instrument.
- (8) If it has calculated the adjusted notional amount in accordance with this Article on the basis of the contractual notional amount denominated in another currency, the bank shall convert the adjusted notional amount of the transaction into the reporting currency at the prevailing middle exchange rate of the CBBiH.
- (9) By way of derogation from paragraph (4) points a) and b) of this Article, a bank may use the original maturity of the derivative contract instead of the residual maturity of the transaction.

Article 52

Exposure classes

Each exposure shall be assigned to one of the following exposure classes:

- a) exposures to central governments and central banks;
- b) exposures to regional governments or local authorities;
- c) exposures to public sector entities;
- d) exposures to multilateral development banks;
- e) exposures to international organisations;
- f) exposures to institutions;
- g) exposures to corporates;
- h) retail exposures;
- i) exposures secured by mortgages on immovable property;
- j) exposures in default;
- k) exposures associated with particularly high risk;
- l) Exposures in the form of covered bonds;

- m) exposures to institutions and corporates with a short-term credit assessment
- n) exposures in the form of units or shares in collective investment undertakings;
- o) equity exposures;
- p) Other items.

Article 53

Calculation of risk weighted exposure amounts

- (1) To calculate risk-weighted exposure amounts, risk weights shall be applied to all exposures, unless deducted from own funds, in accordance with the provisions of this Section which relates to risk weights. The application of risk weights shall be based on the exposure class to which the exposure is assigned and, its credit quality, to the extent specified in part related to risk weights. Credit quality may be determined by reference to the credit assessments of the External Credit Assessment Institutions (hereinafter: ECAIs) or the credit assessments of Export Credit Agencies (hereinafter: ECA) from the part of Decision related to recognition and mapping of the credit rating assessments.
- (2) For the purposes of applying a risk weight, as referred to in previous paragraph, the exposure value shall be multiplied by the risk weight specified or determined in accordance with the part of the Decision related to risk weights.
- (3) Where an exposure is subject to credit protection the risk weight applicable to that item may be amended in accordance with Article 99 of this Decision.
- (4) Exposures for which risk weight is not determined shall be assigned a risk-weight of 100%.

Article 54

Exposures to central governments and central banks

- (1) Exposures to central governments and central banks shall be assigned a 100 % risk weight, unless the treatments set out in paragraphs (2) to (6) of this Article apply.
- (2) Exposures to central governments and central banks for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with table 1 which corresponds to the credit assessment of the ECAI in accordance with Article 73 of this Decision.

Table 1

Credit quality step	1	2	3	4	5	6
Risk weight	0 %	20 %	50 %	100 %	100 %	150 %

- (3) Exposures to the European Central Bank (hereinafter: ECB) shall be assigned a 0 % risk weight.
- (4) Exposures to central government of BiH, CBBH, central governments and central banks of Member States denominated in the domestic currency of that central government and central bank shall be assigned a risk weight of 0 %.
- (5) For exposures to the central government of BiH and the CBBH in EUR or with EUR currency clause the risk weight of 0% shall be applied during the currency board in BiH.
- (6) When the competent authorities of a third country which apply supervisory and regulatory arrangements at least equivalent to those applied in the EU assign a risk weight which is lower than that indicated in paragraphs (1) and (2) of this Article for exposures to their central government and central bank denominated in the domestic currency, bank may risk weight such exposures in the same manner. List of third countries and reference source for establishing the list of third countries is set out in Annex IV of this Decision.

Article 55

Exposures to regional governments or local authorities

- (1) Exposures to regional governments or local authorities shall be weighted as exposures towards institutions, except if they are subject to a risk weight from paragraph (3) of this Article. The preferential treatment for short term exposures from Article 59, paragraph (2) and Article 60, paragraph (2) of this Decision shall not apply.
- (2) Exposures to the Government of the FBiH, Government of RS and Government of Brčko District have the same treatment as exposures to the Central Government of BiH.
- (3) A risk weight of 50% shall be assigned to all exposures to cantonal governments in the FBiH, regional governments or local authorities of EU-member states that do not entail exposures from paragraph (4) of this Article and that are denominated in local currency, i.e. EUR or having a currency clause in EUR.
- (4) Exposures to religious communities shall be treated as exposures to regional governments or local authorities, if religious communities are constituted in the form of a legal person under public law and they raise taxes in accordance with legislation conferring on them the right to do so.
- (5) When competent authorities of a third country which applies supervisory and regulatory framework at least equivalent to that applied in the EU treat exposures to regional governments or local authorities as exposures to their central government and there is no difference in risk between such exposures because of the specific revenue-raising powers of units of regional government or local authorities and due to specific institutional framework that reduces the risk of default, a bank shall assign risk weights in the same manner. List of third countries and reference source for establishing the list of third countries is set out in Annex IV of this Decision.

Article 56

Exposures to public sector entities

- (1) Exposures to public sector entities for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the public sector entity is incorporated are assigned in accordance with the following table 2:

Table 2

Credit quality step to which central government is assigned	1	2	3	4	5	6
Risk weight	20 %	50 %	100 %	100 %	100 %	150 %

- (2) For exposures to public sector entities incorporated in countries where the central government is unrated, the risk weight shall be 100 %.
- (3) Exposures to public sector entities for which a credit assessment by a nominated ECAI is available shall be treated in accordance with Article 60 of this Decision. The preferential treatment from Article 59, paragraph (2) and Article 60 paragraph (2) for short-term exposures shall not be applied to those entities.
- (4) For exposures to public sector entities with an original maturity of three months or less, the risk weight shall be 20 %.
- (5) When competent authorities of a third country jurisdiction, which apply supervisory and regulatory arrangements at least equivalent to those applied in the EU, treat exposures to public sector entities in accordance with paragraph (1) or (2) of this Article, banks may risk weight exposures to such public sector entities in the same manner. Otherwise the banks

shall apply a risk weight of 100 %. List of third countries and reference source for establishing the list of third countries is set out in Annex IV of this Decision.

- (6) In exceptional circumstances, exposures to public-sector entities may be treated as exposures to the central governments or regional governments or local authority due to the legal obligations imposed to central government, regional government, or local authority to settle all obligations of entity concerned.

Article 57

Exposures to the multilateral development banks

- (1) Exposures to the multilateral development banks which are not listed in the paragraph (2) of this Article shall be treated in the same way as exposures to institutions. Preferential treatment from Article 59, paragraph (2), Article 60, paragraph (2) and Article 61, paragraph (3) of this Decision referred to short-term exposures shall not be applied. Inter-American Investment Corporation, Black Sea Trade and Development Bank, Central American Bank for Economic Integration and CAF-Development Bank of Latin America shall be considered as multilateral development banks.
- (2) Exposures to the following multilateral development banks shall be assigned a risk weight of 0%.
- a) International Bank for Reconstruction and Development;
 - b) International Finance Corporation;
 - c) Inter-American Development Bank;
 - d) Asian Development Bank;
 - e) African Development Bank;
 - f) Council of Europe Development Bank;
 - g) Nordic Investment Bank;
 - h) Caribbean Development Bank;
 - i) European Bank for Reconstruction and Development;
 - j) European Investment Bank;
 - k) European Investment Fund;
 - l) Multilateral Investment Guarantee Agency;
 - m) International Finance Facility for Immunisation;
 - n) Islamic Development Bank;
 - o) International Development Association;
 - p) Asian Infrastructure Investment Bank.
- (3) A risk weight of 20 % shall be assigned to the portion of unpaid capital subscribed to the European Investment Fund.

Article 58

Exposures to international organisations

A risk weight of 0% shall be assigned for exposures to the following international organisations:

- a) European Union and European Atomic Energy Community;
- b) International Monetary Fund;
- c) Bank for International Settlements;
- d) European Financial Stability Facility;
- e) European Stability Mechanism;
- f) International financial institution established by two or more Member States, which has the purpose to mobilise funding and provide financial assistance to the benefit of its members that are experiencing or threatened by severe financing problems.

Article 59

Exposures to institutions

- (1) Exposures to institutions for which a credit assessment by a nominated ECAI is available shall be risk-weighted in accordance with Article 60 of this Decision. Exposures to institutions for which a credit assessment by a nominated ECAI is not available shall be risk weighted in accordance with Article 61 of this Decision.
- (2) Exposures to institutions of a residual maturity of three months or less denominated and funded in the national currency of the borrower shall be assigned a risk weight that is one category less favourable than the preferential risk weight, as described in Article 54, paragraphs (4) to (6) of this Decision, assigned to exposures to the central government in which the institution is incorporated.
- (3) No exposures with a residual maturity of three months or less denominated and funded in the national currency of the borrower shall be assigned a risk weight less than 20 %.
- (4) Exposures to financial institutions authorised and supervised by the competent authorities and subject to prudential requirements comparable to those applied to banks shall be treated as exposures to institutions.
- (5) Exposures to institutions shall include exposures to exchanges and investment firms in BiH, which operate subject to legislation governing operations of the exchanges and investment firms, investment firms from Member States which operate under EU legislation, recognised third-country exchanges and investment firms meeting all of the following conditions:
 - a) if it was established within the EU, it would be covered by the definition of an exchange or an investment firm;
 - b) it is authorised in a third country;
 - c) it is subject to and complies with prudential rules considered by the competent authorities as at least as stringent as those laid down by the EU regulations.

Article 60

Exposures to rated institutions

- (1) Exposures to institutions with a residual maturity of more than three months for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to the table 3 which corresponds to the credit assessment of the ECAI in accordance with Article 73.

Table 3

Credit quality step	1	2	3	4	5	6
Risk weight	20 %	50 %	50 %	100 %	100 %	150 %

- (2) Exposures to an institution of up to three months residual maturity for which a credit assessment by a nominated ECAI is available shall be assigned a risk-weight according to table 4 which corresponds to the credit assessment of the ECAI in accordance with Article 73 of this Decision.

Table 4

Credit quality step	1	2	3	4	5	6
Risk weight	20 %	20 %	20 %	50 %	50 %	150 %

- (3) The interaction between the treatment of short term credit assessment under Article 68 of this Decision and the general preferential treatment for short term exposures set out in paragraph (2) shall be as follows:
 - a) If there is no short-term exposure assessment, the general preferential treatment for short-term exposures as specified in paragraph (2) of this Article shall apply to all exposures to institutions of up to three months residual maturity;

- b) If there is a short-term assessment and such an assessment determines the application of a more favourable or identical risk weight, as well as the use of the general preferential treatment for short-term exposures, as specified in paragraph (2), then the short-term assessment shall be used for that specific exposure only. Other short-term exposures shall follow the general preferential treatment for short-term exposures, as specified in paragraph (2) of this Article;
- c) If there is a short-term assessment and such an assessment determines a less favourable risk weight than the use of the general preferential treatment for short-term exposures, as specified in paragraph (2) of this Article, then the general preferential treatment for short-term exposures shall not be used and all unrated short-term claims shall be assigned the same risk weight as that applied by the specific short-term assessment.

Article 61

Exposures to unrated institutions

- (1) Exposures to institutions for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned in accordance with table 5.

Table 5

Credit quality step to which central government is assigned	1	2	3	4	5	6
Risk weight of exposure	20 %	50 %	100 %	100 %	100 %	

- (2) For exposures to unrated institutions incorporated in countries where the central government is unrated, the risk weight shall be 100 %.
- (3) For exposures to unrated institutions with an original effective maturity of three months or less, the risk weight shall be 20 %.

Article 62

Exposures to corporates

- (1) Exposures to corporates for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to table 6 which corresponds to the credit assessment of the ECAI in accordance with Article 73 of this Decision.

Table 6

Credit quality step	1	2	3	4	5	6
Risk weight	20 %	50 %	100 %	100 %	150 %	150 %

- (2) Exposures to corporates for which such a credit assessment is not available shall be assigned a 100 % risk weight. In cases where a risk weight over 100% is assigned to the central government of the jurisdiction in which the corporate is incorporated, exposures to corporates for which a credit assessment is not available a risk weight higher than 100 % shall be assigned.

Article 63

Retail exposures

- (1) Retail exposures that comply with the following criteria shall be assigned a risk weight of 75 %:
 - a) the exposure shall be either to a natural person or persons, or to a small or medium-sized enterprise (SME);

- b) the exposure shall be one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced;
 - c) the total amount owed to the institution and parent undertakings and its subsidiaries, including any exposure in default, by the obligor client or group of connected clients, but excluding exposures fully and completely secured by immovable property, does not exceed BAM 250 thousand. The bank shall take reasonable steps to acquire this knowledge.
- (2) Securities shall not be eligible for the retail exposure class.
 - (3) Exposures that do not meet criteria under paragraph (1) items a) to c) of this Article, and criteria to be classified into other exposure classes in accordance with the decision tree, shall be classified as:
 - a) retail exposure class, in case of natural persons, and the risk weight of 100% shall be assigned,
 - b) corporate exposure class, in case of small and medium-sized companies, and the risk weight of 100% shall be assigned.
 - (4) The present value of retail minimum lease payments is eligible for the retail exposure class.

Article 64

Exposures secured by immovable property

- (1) An exposure or any part of an exposure fully secured by residential and commercial immovable property shall be assigned a risk weight of 100 %, where the conditions under paragraphs (3) and (4) of this Article are not met, and if not assigned to another exposure class.
- (2) The part of an exposure treated as fully secured by immovable property shall not be higher than 80% of the market value of residential property, respectively 60% of the market value of the commercial property, and for the part of exposure which exceeds 80% of the market value of residential property or 60% of the market value of commercial property shall be assigned the risk weight applicable to the unsecured exposures of the counterparty involved.
- (3) Exposures or any part of an exposure fully and completely secured by residential property which is or shall be occupied or let by the owner, or the beneficial owner, where the conditions from paragraph (5) under this Article are met, shall be assigned a risk weight of 50%.
- (4) Exposures or any part of an exposure fully and completely secured by commercial property which meet conditions under paragraph (5) of this Article, shall be assigned a risk weight of 75%.
- (5) Exposures secured by immovable property shall qualify as eligible collateral only where all requirements laid down under points a) to c) of this paragraph are met.
 - a) The following requirements on legal certainty shall be met:
 - 1) a mortgage or charge is enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement and shall be properly filed on a timely basis;
 - 2) all legal requirements for establishing the pledge have been fulfilled;
 - 3) the protection agreement and the legal process underpinning it enable the bank to realise the value of the protection within a reasonable timeframe.
 - b) The following requirements on monitoring of property values and on property valuation shall be met:
 - 1) following initial assessment by an independent valuer, banks monitor the value of the property on a frequent basis and at a minimum once every year for commercial

- immovable property and once every three years for residential real estate. Banks carry out more frequent monitoring where the market is subject to significant changes in conditions;
- 2) the property valuation is reassessed when information available to banks indicates that the value of the property may have declined materially relative to general market prices and that reassessment is carried out by an independent valuer. For exposures exceeding 1 million KM or 5 % of the own funds of a bank, the property valuation shall be reviewed by such valuer at least every three years. Banks may use statistical methods to monitor the value of the property and to identify property that needs revaluation.
 - c) The bank shall clearly document the types of residential and commercial immovable property they accept and their lending policies in this regard.
- (6) In order for an exposure or any part of an exposure to be considered to be fully secured by immovable property, in addition to meeting the conditions referred to in paragraph (5) of this Article, the following conditions must also be met:
- a) the value of the property shall not materially depend upon the credit quality of the borrower. A bank may exclude situations where purely macro-economic factors affect both the value of the property and the performance of the borrower from its determination of the materiality of such dependence;
 - b) the risk of the borrower shall not materially depend upon the performance of the underlying property or project, but on the underlying capacity of the borrower to repay the debt from other sources. The repayment of the debt shall therefore not materially depend on any cash flow generated by the underlying property serving as collateral. For those other sources, a bank shall determine maximum loan-to-income ratios as part of its lending policy and obtain suitable evidence of the relevant income when granting the loan.
- (7) For the exposure which under other provisions of this Decision a more favourable risk weight could be assigned, than the one assigned under the exposures secured by immovable property, that more favourable risk weight shall be assigned.

Article 65

Exposures in default

- (1) The unsecured part of any exposure item in default shall be assigned the following risk weight of:
 - a) 150% where specific credit risk adjustments are less than 20 % of the unsecured part of the exposure value, if these specific credit risk adjustments were not applied;
 - b) 100% where specific credit risk adjustments are no less than 20 % of the unsecured part of the exposure value if these specific credit risk adjustments were not applied.
- (2) The exposure value in default fully and completely secured by mortgages on residential property and or commercial property shall be assigned a risk weight of 100 %.
- (3) For the purpose of determining the secured part of the past due item, eligible collateral shall be those eligible for credit risk mitigation purposes.
- (4) A default shall be considered to have occurred with regard to a particular obligor when either or both of the conditions under Article 2, paragraph (1) point nn) have taken place or when:
 - a) the obligor is past due more than 90 days in a materially significant amount, except where a bank proves that default occurred due to technical error,
 - b) the bank considers that the obligor is unlikely to pay its credit obligations to the bank, the parent undertaking or any of its subsidiaries in full, without recourse by the bank to actions such as realizing security.

- (5) Materially significant amount under paragraph (4) item a) of this Article shall pertain to materially significant amount as defined under Article 2, paragraph (1) point nn) of this Decision.
- (6) For the purpose of paragraph (4) item a) of this Article, counter of days past due shall start on the date when the total claims due from the obligor exceed a materially significant amount under paragraph (5) of this Article and counting stops when the total claims get down below that level. Thereby, counting of days past due for:
 - a) overdrafts, days past due commence once an obligor has breached an advised limit, has been advised a limit smaller than current outstanding, or has drawn credit without authorization and the underlying amount is material under paragraph (5) of this Article. Thereby, an advised limit comprises any credit limit determined by the bank and about which the obligor has been informed by the bank.
 - b) days past due for credit cards commence on the minimum payment due date.
- (7) Bank shall have documented policies in respect of the counting of days past due, particular in respect of the granting of extensions to settle obligations, renewing exposures and similar. These policies shall be applied consistently over time and shall be in line with the internal risk management system.
- (8) Default occurred due to technical error under paragraph (4) item a) of this Article and conditions under which is considered that the obligor is unlikely to pay in full its obligations to the bank under paragraph (4) item b) of this Article shall have the same meaning as in the Decision on credit risk management and determination of expected credit losses.
- (9) It shall be considered that condition for exposure classification to default exposure classes ceased to be valid, only after all conditions for exposure reclassification from credit risk level 3 to lower credit risk levels are met, as defined by the Decision on credit risk management and determination of expected credit losses.

Article 66

High risk exposures

- (1) Banks shall assign a 150 % risk weight to exposures that are associated with particularly high risks.
- (2) For the purposes of this Article, a bank shall treat any of the following exposures as exposures associated with particularly high risks:
 - a) investments in venture capital firms, except where those investments are treated in accordance with Article 69 of this Decision;
 - b) investments in unlisted private equity, except where those investments are treated in accordance with Article 69 of this Decision;
 - c) speculative immovable property financing.
- (3) When assessing whether an exposure other than exposures referred to in the paragraph (2) of this Article is associated with particularly high risks, bank shall take into account the following risk characteristics:
 - a) there is a high risk of loss as a result of a default of the obligor;
 - b) it is impossible to assess adequately whether the exposure falls under point a) of this paragraph.
- (4) A bank should consider as items associated with particularly high risk, from among those referred to in paragraph (2), at a minimum, those exposures that exhibit levels and ranges of risk drivers that are not common to other obligors or transactions of the same exposure class.
- (5) For the purposes of paragraph (4), bank should consider, at a minimum:
 - a) any financing of speculative investments in both financial and non-financial assets other than immovable property, in which the obligor has the intention to resell the assets for

profit, and there is a particularly high risk of loss in cases of the default of the obligor, and there are insufficient other incomes and assets of the obligor available for mitigating the loss risk for the bank;

- b) any debt of such an issuer would receive a 150% risk weight if these debt obligations were exposures of the bank due to either of the associated credit assessment of an ECAI nominated by the bank for the corresponding debt obligation warrants a 150% risk weight or the issuer is in default.

Article 67

Exposures in the form of covered bonds

- 1) To be eligible for the preferential treatment set out in paragraphs (3) and (4) of this Article, covered bonds shall meet the requirements set out in paragraph (5) of this Article and shall be collateralised by any of the following eligible assets:
 - a) exposures to or guaranteed by the Central Government of BiH, Government of the FBiH, Government of RS, Government of Brčko District, CBBiH, central governments, central banks members of the European System of Central Banks (ESCB) in the EU, regional governments or local authorities in the EU, public sector entities in the EU;
 - b) exposures to or guaranteed by third country central governments, third-country central banks, multilateral development banks, international organisations that qualify for the credit quality step 1, and exposures to or guaranteed by third-country public sector entities, third-country regional governments or third-country local authorities that are risk weighted as exposures to institutions or central governments and central banks in accordance with Article 55, paragraphs (1) and (6) or Article 56, paragraphs (1), (3) or (5) respectively and that qualify for the credit quality step 1 and exposures within the meaning of this point that qualify as a minimum for the credit quality step 2 as set out in this part of the Decision, provided that they do not exceed 20 % of the nominal amount of outstanding covered bonds of the issuing institution.
 - c) exposures to institutions that qualify for the credit quality step 1. The total exposure of this kind shall not exceed 15 % of the nominal amount of outstanding covered bonds of the issuing institution. Exposures to institutions in the EU with a maturity not exceeding 100 days shall not be comprised by the step 1 requirement but those institutions shall as a minimum qualify for credit quality step 2.
- 2) The situations referred to in points a) to c) of paragraph (1) of this Article shall also include collateral that is exclusively restricted by legislation to the protection of the bond-holders against losses.
- 3) Covered bonds for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to table 7 which corresponds to the credit assessment of the ECAI in accordance with Article 73 of this Decision.

Table 7

Credit quality step	1	2	3	4	5	6
Risk weight	10 %	20 %	20 %	50 %	50 %	100 %

- 4) Covered bonds for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight on the basis of the risk weight assigned to senior unsecured exposures to the institution which issues them. The following correspondence between risk weights shall apply:
 - a) if the exposures to the institution are assigned a risk weight of 20 %, the covered bond shall be assigned a risk weight of 10 %;
 - b) if the exposures to the institution are assigned a risk weight of 50 %, the covered bond shall be assigned a risk weight of 20 %;

- c) if the exposures to the institution are assigned a risk weight of 100 %, the covered bond shall be assigned a risk weight of 50 %;
 - d) if the exposures to the institution are assigned a risk weight of 150 %, the covered bond shall be assigned a risk weight of 100 %.
- 5) Exposures in the form of covered bonds are eligible for preferential treatment, provided that the bank investing in the covered bonds can demonstrate to the Agency that:
- a) it receives portfolio information at least on:
 - 1) the value of the cover pool and outstanding covered bonds
 - 2) the geographical distribution and type of cover assets, loan size, interest rate and currency risks
 - 3) the maturity structure of cover assets and covered bonds; and
 - 4) the percentage of loans more than ninety days past due
 - b) the issuer makes the information referred to in point (a) available to the bank at least semi-annually.

Article 68

Exposures to institutions and corporates with a short-term credit assessment

Exposures to institutions and exposures to corporates for which a short-term credit assessment by a nominated ECAI is available shall be assigned a risk weight according to table 8 which corresponds to the credit assessment of the ECAI in accordance with Article 73 of this Decision.

Table 8

Credit Quality Step	1	2	3	4	5	6
Risk weight	20 %	50 %	100 %	150 %	150 %	150 %

Article 69

Exposures in the form of units or shares in investment funds

- (1) A bank shall calculate the risk-weighted exposure amount for its exposures in the form of units or shares in an investment fund in accordance with the following approaches:
- a) look-through approach, risk weighting all underlying exposures of the investment funds as if they were directly held by bank;
 - b) mandate-based approach, in accordance with the limits set in the fund's established investment policy and relevant regulations;
 - c) fall-back approach, assigning a risk weight of 1 250% to all exposures in the form of units or shares in investment funds.
- (2) A bank may use the approaches defined in paragraph (1) points a) and b) of this Article where all the following conditions are met:
- a) the investment fund is one of the following:
 - 1) an undertaking for collective investment in transferable securities (UCITS) in EU governed by Directive for undertakings for collective investment in transferable securities, a non-EU investment fund, governed by a regulation equivalent to the Directive in question in the EU;
 - 2) an alternative investment fund managed by an EU alternative investment fund managers (AIFM) registered and authorised under the Directive on Alternative Investment Fund Managers in the EU (AIFMD);
 - 3) an EU alternative investment fund managed by a non-EU AIFM authorised under the Directive referred to in item 2) of this point;
 - 4) a non-EU alternative investment fund managed by a non-EU AIFM and marketed in accordance with the Directive referred to in item 2) of this point;

- 5) a non-EU alternative investment fund not marketed in the EU and managed by a non-EU AIFM established in a third country that operates under the regulations equivalent to the regulations defined in accordance with the Directive referred to in item 2) of this point;
 - 6) a BiH open-end investment fund with a public offering managed by a BiH investment fund managers and operating under the regulations applicable to the BiH investment funds in question;
 - 7) a BiH alternative investment fund managed by a BiH alternative investment fund managers and operating under the regulations applicable to the BiH investment funds in question.
- b) the investment fund's prospectus or equivalent document includes the following:
 - 1) the categories of assets in which the investment fund is authorised to invest;
 - 2) where investment limits apply, the relative limits and the methodologies to calculate them;
 - c) reporting by the investment fund or the investment fund management company to the bank complies with the following requirements:
 - 1) the exposures of the investment fund are reported at least as frequently as those of the bank;
 - 2) the granularity of the financial information is sufficient to allow the bank to calculate the investment fund's risk-weighted exposure amount in accordance with the approach chosen by the bank;
 - 3) where the bank applies the look-through approach, information about the underlying exposures is verified by an independent third party referred to in paragraph (5) of this Article.
- (3) A bank shall determine the risk-weighted exposure amount for its exposures in the form of units or shares in an investment fund by multiplying the risk-weighted exposure amount of the investment fund's exposures calculated in accordance with the approaches referred to in the paragraph (1) points a) and b) of this Article with the percentage of the units or shares held by the bank.
- (4) Where the conditions set out in paragraph (2) of this Article, are met, bank that have sufficient information about the individual underlying exposures of an investment fund may use look through approach. Where the conditions set out in paragraph (2) of this Article are met, bank that do not have sufficient information about the individual underlying exposures of an investment fund may calculate the risk-weighted exposure amount of those exposures in accordance with the limits set in the investment funds mandate and relevant regulations under the following conditions:
- a) under the assumption that the investment fund first incurs exposures to the maximum extent allowed under its mandate or relevant regulations in the exposures attracting the highest own funds requirement,
 - b) and then continues incurring exposures in descending order until the maximum total exposure limit is reached, and that the investment fund applies leverage to the maximum extent allowed under its mandate or relevant regulations.
- (5) A bank that does not have adequate data or information to calculate the risk-weighted exposure amount of an investment fund's exposures in accordance with the approaches set out in paragraph (1) points a) and b) of this Article may rely on the calculations of a third party under the following conditions:
- a) the third party is one of the following:
 - 1) the depository of the investment fund, provided that the investment fund exclusively invests in securities and deposits all securities at that depository or

- 2) for investment funds not covered by item 1) of this point, the investment fund management company, provided that the company meets the condition set out in paragraph (2) point a) of this Article;
 - b) the third party carries out the calculation in accordance with the approaches set out in paragraph (1) points a) and b) of this Article;
 - c) an external auditor has confirmed the correctness of the third party's calculation.
- (6) A bank that relies on third-party calculations shall multiply the risk-weighted exposure amount of an investment fund's exposures resulting from those calculations by a factor of 1,2, unless the bank has unrestricted access to the detailed calculations carried out by the third party.
 - (7) A bank shall provide the calculations referred to in paragraph (6) of this Article to the Agency upon request.
 - (8) Where a bank uses the approach in accordance with paragraph (1) point b) of this Article, the reporting by the investment fund or investment fund management company to the bank in accordance with paragraph (2) point c) item 1) of this Article may be limited only to the investment mandate of the investment fund and any changes thereof and may be done only when the bank incurs the exposure to the investment fund for the first time and when there is a change in the investment mandate of the investment fund.
 - (9) Where a bank applies the approaches referred to in paragraph (1) points a) and b) of this Article for the purpose of calculating the risk-weighted exposure amount of an investment fund's exposures ('level 1 CIU'), and any of the underlying exposures of the level 1 CIU is an exposure in the form of units or shares in another investment fund ('level 2 CIU'), the risk-weighted exposure amount of the level 2 CIU's exposures may be calculated by using any of the three approaches described in paragraph (1) of this Article.
 - (10) Bank may calculate the risk-weighted exposure amount for their exposures in the form of units or shares in an investment fund by using a combination of the approaches referred to in paragraph (1) of this Article, provided that the conditions for using those approaches are met.
 - (11) The risk-weighted exposure amount of an investment funds exposures calculated in accordance with the approaches set out in paragraph (1) points a) and b) of this Article shall be capped at the risk-weighted amount calculated in accordance with paragraph (1) point c) of this Article.
 - (12) A bank may exclude from the calculations referred to in paragraph (1) of this Article own funds instruments held by an investment fund which the bank shall deduct from own capital.
 - (13) The Agency may subsequently prescribe a method of calculating the risk-weighted exposure amount for off-balance sheet exposures, depending on the justification of introducing such requirements.

Article 70

Equity exposures

- (1) The following exposures shall be considered equity exposures:
 - a) non-debt exposures conveying a subordinated, residual claim on the assets or income of the issuer;
 - b) debt exposures and other securities, partnerships, derivatives, the economic substance of which is similar to the exposures specified in point (a) of this paragraph.
- (2) Equity exposures shall be assigned a risk weight of 100 %, unless they are deductible item from own funds, or treated as high risk items in accordance with Article 66 of this Decision, or assigned a 1 250 % risk weight in accordance with Article 9 of this Decision.

- (3) Investments in equity or regulatory capital instruments issued by banks shall be classified as equity claims, unless they present deductible items from own funds or treated as high risk items in accordance with Article 66 of this Decision.

Article 71

Other exposures

- (1) Tangible assets (land and buildings, equipment, prepayments for tangible assets and tangible assets under construction) shall be assigned a risk weight of 100 %.
- (2) Prepayments and accrued income for which an institution is unable to determine the counterparty shall be assigned a risk weight of 100 %.
- (3) Cash items in the process of collection shall be assigned a 20 % risk weight. Cash in hand and equivalent cash items shall be assigned a 0 % risk weight.
- (4) Gold bullion held in own vaults or on an allocated basis to the extent backed by bullion liabilities shall be assigned a 0 % risk weight.
- (5) In the case of asset sale and repurchase agreements and outright forward purchases, the risk weight shall be that assigned to the assets in question and not to the counterparties to the transactions.
- (6) The exposure value for leases shall be the discounted minimum lease payments. Minimum lease payments are the payments over the lease term that the lessee is or can be required to make and any bargain option the exercise of which is reasonably certain.

IV RECOGNITION OF ECAI'S

Article 72

Use of credit assessments by ECAIs

- (1) An external credit assessment may be used to determine the risk weight of an exposure only if it has been issued by an ECAI or has been endorsed by an ECAI.
- (2) The European Securities and Markets Authority (ESMA) shall update and publish the list of registered and certified credit assessment institutions on its web site to be used by banks.

Article 73

Mapping of ECAI's credit assessments

- (1) The European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and ESMA shall, through the Joint Committee, develop draft implementing technical standards to determine mapping of ECAIs credit assessments to corresponding credit quality steps set out in Section III of this Decision. Those determinations shall be objective and consistent.
- (2) The Agency shall publish the list of web sites where the documents referred to in paragraph (1) of this Article may be downloaded.

Article 74

Use of credit assessments by ECA (Export Credit Agencies)

- (1) For the purpose of Article 54 of this Decision, banks may use credit assessments of an ECA that the bank has nominated, if either of the following conditions is met:
 - a) it is a consensus risk score from ECA participating in the arrangement on guidelines of the Organisation for Economic Co-operation and Development (hereinafter: OECD) for officially supported export credits, or
 - b) ECA publishes its credit assessments and subscribes to the OECD agreed methodology, and the credit assessment is associated with one of the eight minimum export insurance premiums (MEIP) that the OECD agreed methodology establishes. A bank may revoke its nomination of an ECA. A bank shall substantiate the revocation if there are concrete

indications that the intention underlying the revocation is to reduce the capital adequacy requirements.

- (2) Exposures for which a credit assessment by an ECA is recognised for risk weighting purposes shall be assigned a risk weight according to table 9.

Table 9

MEIP	0	1	2	3	4	5	6	7
Risk weight	0 %	0 %	20 %	50 %	100 %	100 %	100 %	150 %

Article 75

General requirements to use ECAs credit assessments for determination of risk weights

A bank may nominate one or more ECAs to be used for the determination of risk weights to be assigned to assets and off-balance sheet items. A bank may revoke its nomination of an ECA. A bank shall substantiate the revocation if there are concrete indications that the intention underlying the revocation is to reduce the capital adequacy requirements. Credit assessments shall not be used selectively. A bank shall use solicited credit assessments. In using credit assessment, banks shall comply with the following requirements:

- a) a bank which decides to use the credit assessments produced by an ECA for a certain class of items shall use those credit assessments consistently for all exposures belonging to that class;
- b) a bank which decides to use the credit assessments produced by an ECA shall use them in a continuous and consistent way over time;
- c) a bank shall only use ECAs credit assessments that take into account all amounts both in principal and in interest owed to it;
- d) where only one credit assessment is available from a nominated ECA for a rated item, that credit assessment shall be used to determine the risk weight for that item;
- e) where two credit assessments are available from nominated ECAs and the two correspond to different risk weights for a rated item, the higher risk weight shall be assigned;
- f) where more than two credit assessments are available from nominated ECAs for a rated item, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the higher risk weight shall be assigned. If the two lowest risk weights are the same, that risk weight shall be assigned.

Article 76

Issuer and issue credit assessment

- (1) Where a credit assessment exists for a specific issuing programme or facility to which the item constituting the exposure belongs, this credit assessment shall be used to determine the risk weight to be assigned to that item.
- (2) Where no directly applicable credit assessment exists for a certain item, but a credit assessment exists for a specific issuing programme or facility to which the item constituting the exposure does not belong or a general credit assessment exists for the issuer, then that credit assessment shall be used in either of the following cases:
 - a) it produces a higher risk weight than would otherwise be the case and the exposure in question ranks *pari passu* or junior in all respects to the specific issuing program or facility or to senior unsecured exposures of that issuer, as relevant
 - b) it produces a lower risk weight and the exposure in question ranks *pari passu* or senior in all respects to the specific issuing programme or facility or to senior unsecured exposures of that issuer, as relevant.

In all other cases, the exposure shall be treated as unrated.

- (3) Paragraphs (1) and (2) of this Article are not to prevent the application of Article 67 of this Decision.
- (4) Credit assessments for issuers within a corporate group cannot be used as credit assessment of another issuer within the same corporate group.

Article 77

Long-term and short-term credit assessments

- (1) Short-term credit assessments may only be used for short-term asset and off-balance sheet items constituting exposures to institutions and corporates.
- (2) Any short-term credit assessment shall only apply to the item the short-term credit assessment refers to, and it shall not be used to derive risk weights for any other item, except in the following cases:
 - a) if a short-term rated facility is assigned a 150 % risk weight, then all unrated unsecured exposures on that obligor whether short-term or long-term shall also be assigned a 150 % risk weight
 - b) If a short-term rated facility is assigned a 50 % risk-weight, no unrated short-term exposure shall be assigned a risk weight lower than 100 %.

Article 78

Domestic and foreign currency items

- (1) A credit assessment that refers to an item denominated in the obligor's domestic currency cannot be used to derive a risk weight for another exposure on that same obligor that is denominated in a foreign currency.
- (2) When an exposure arises through a bank's participation in a loan that has been extended by a multilateral development bank whose preferred creditor status is recognised in the market, the credit assessment on the obligors' domestic currency item may be used for risk weighting purposes.

V CREDIT RISK MITIGATION TECHNIQUES (CRM)

Article 79

General provisions for recognising the effect of credit risk mitigation

- (1) For the purpose of this Chapter lending bank is a bank which receive a credit protection.
- (2) No exposure to which credit risk mitigation technique applied shall produce a higher risk-weighted exposure amount than an otherwise identical exposure in respect of which credit risk mitigation technique has not applied.
- (3) Provided that provisions for recognition of funded or unfunded credit protection are met, a bank may amend the calculation of risk-weighted exposure amounts with part of this Decision which relates to calculation of own funds requirements for credit risk under the standardized approach.
- (4) Banks shall treat cash, securities or commodities purchased, borrowed or received under a repurchase transaction or securities or commodities lending or borrowing transaction to/from counterparty as collateral.
- (5) Where a bank calculating risk-weighted exposure amounts under the Standardised Approach use more than one instrument of credit risk mitigation covering a single exposure it shall do both of the following:
 - a) subdivide the exposure into parts covered by each type of credit risk mitigation tool and
 - b) calculate the risk-weighted exposure amount for each part obtained in point a) of this paragraph separately in accordance with the provisions of Decision related to calculation of own funds requirements for credit risk under the Standardised Approach and this part of this Decision.

- (6) When a bank calculating risk-weighted exposure amounts under the Standardised Approach covers a single exposure with credit protection provided by a single protection provider and that protection has differing maturities, it shall do both of the following:
- a) subdivide the exposure into parts covered by each credit risk mitigation tool and
 - b) calculate the risk-weighted exposure amount for each part obtained in point a) of this paragraph separately in accordance with the provisions of Decision related to calculation of own funds requirements for credit risk under the Standardised Approach and this part.

Article 80

Principles governing the eligibility of credit risk mitigation techniques

- (1) The technique used to provide the credit protection together with the actions and steps taken and procedures and policies implemented by the lending bank shall be such as to result in credit protection arrangements which are legally effective and enforceable in all relevant jurisdictions.
The lending bank shall provide, upon request of the Agency, the most recent version of the independent, written and reasoned legal opinion or opinions that it used to establish whether its credit protection arrangement or arrangements meet these conditions.
- (2) The lending bank shall take all appropriate steps to ensure the effectiveness of the credit protection arrangement and to address the risks related to that arrangement.
- (3) Bank may recognise funded credit protection in the calculation of the effect of credit risk mitigation only where the assets relied upon for protection meet both of the following conditions:
 - a) it is the eligible assets as set out under Articles 81 to 83 of this Decision recognised as collateral;
 - b) they are sufficiently liquid and their value over time sufficiently stable to provide appropriate certainty as to the credit protection achieved having regard to the approach used to calculate risk-weighted exposure amounts and to the degree of recognition allowed.
- (4) Bank may recognise funded credit protection in the calculation of the effect of credit risk mitigation only where the lending bank has the right to liquidate or retain, in a timely manner, the assets from which the protection derives in the event of the default, insolvency or bankruptcy — or other credit event set out in the transaction documentation — of the obligor and, where applicable, of the custodian holding the collateral. The degree of correlation between the value of the assets relied upon for protection and the credit quality of the obligor shall not be too high.
- (5) In the case of unfunded credit protection, a protection provider shall qualify as an eligible protection provider only where the protection provider is included in the list of eligible protection providers set out in Article 84.
- (6) In the case of unfunded credit protection, a protection agreement shall qualify as an eligible protection agreement under Articles 84 and 85, and under condition that the agreement is legally effective and enforceable in the relevant jurisdictions, to provide appropriate certainty as to the credit protection achieved having regard to the approach used to calculate risk-weighted exposure amounts and to the degree of recognition allowed;
- (7) Credit protection shall meet the conditions under part of the Decision related to requirements for the recognition of credit protection.
- (8) Bank shall be able to demonstrate to the Agency that it has adequate risk management processes to control those risks to which it may be exposed as a result of carrying out credit risk mitigation practices.

- (9) Notwithstanding the fact that credit risk mitigation has been taken into account for the purposes of calculating risk-weighted exposure amounts and, where applicable, expected loss amounts, bank shall continue to undertake a full credit risk assessment of the underlying exposure and be in a position to demonstrate the fulfilment of this requirement to the Agency. For the purpose of this paragraph, for repurchase transactions and securities lending or commodities lending or borrowing transactions to/from counterparty the underlying exposure shall be deemed to be the net amount of the exposure.

RECOGNITION OF FUNDED CREDIT PROTECTION

Article 81

Eligibility of collateral under all approaches and methods

- (1) Bank may use the following items as eligible collateral under all approaches and methods:
- a) cash on deposit with, or cash assimilated instruments held by, the lending institution;
 - b) debt securities issued by central governments or central banks, which securities have a credit assessment by an ECAI or ECA recognised as eligible for the purposes of part of Decision related to calculation of capital requirements for credit risk which has been determined to be associated with at least credit quality step 4 under the rules for the risk weighting of exposures to central governments and central banks under related part of Decision;
 - c) debt securities issued by institutions or investment firms, which securities have a credit assessment by an ECAI which has been determined to be associated with at least credit quality step 3 under the rules for the risk weighting of exposures to institutions under part of Decision related to calculation of own funds requirements for credit risk;
 - d) debt securities issued by other entities which securities have a credit assessment by an ECAI which has been determined to be associated with at least credit quality step 3 under the rules for the risk weighting of exposures to corporates under part of Decision relate to calculation of own funds requirements for credit risk;
 - e) debt securities with a short-term credit assessment by an ECAI which has been determined to be associated with at least credit quality step 3 under the rules for the risk weighting of short-term exposures under the part of the Decision related to calculation of own funds requirements for credit risk;
 - f) equities or convertible bonds that are included in a main index;
 - g) gold.
- (2) For the purposes of point b) of paragraph (1) of this Article, 'debt securities issued by central governments or central banks' shall include all the following:
- a) debt securities issued by the Government of the FBiH, Government of RS and Government of Brčko District, debt securities issued by regional governments or local authorities, exposures to which are treated as exposures to the central government under Article 55, paragraph (5) of this Decision;
 - b) debt securities issued by public sector entities, which are treated as exposures to central governments in accordance with Article 56, paragraph (6) of this Decision;
 - c) debt securities issued by multilateral development banks to which a 0 % risk weight is assigned under Article 57, paragraph (2) of this Decision,
 - d) debt securities issued by international organisations which are assigned a 0 % risk weight under Article 58 of this Decision.
- (3) For the purposes of paragraph (1) point c) of this Article, debt securities issued by institutions shall include all the following:
- a) debt securities issued by regional governments or local authorities other than those debt securities referred to in paragraph (2) point a) of this Article;

- b) debt securities issued by public sector entities, exposures to which are treated in accordance with Article 56, paragraphs (1) to (3) of this Decision;
 - c) debt securities issued by multilateral development banks other than those to which a 0 % risk weight is assigned under Article 57, paragraph (2) of this Decision.
- (4) A bank may use debt securities that are issued by other institutions or investment firms and that do not have a credit assessment by an ECAI as eligible collateral where those debt securities fulfil all the following criteria:
- a) they are listed on a recognised exchange;
 - b) they qualify as senior debt (from the aspect of collection);
 - c) all other rated issues by the issuing institution of the same seniority have a credit assessment by an ECAI which has been determined in accordance with Article 73 of this Decision to be associated with at least credit quality step 3 under the rules for the risk weighting of exposures to institutions or short term exposures under part of Decision related to calculation of capital requirements for credit risk – standardised approach;
 - d) the lending bank has no information to suggest that the issue would justify a credit assessment below that indicated in point c) of this paragraph;
 - e) the market liquidity of the instrument is sufficient for these purposes.
- (5) A bank may use units or shares in investment funds as eligible collateral where all the following conditions are satisfied:
- a) the units or shares have a daily public price quote;
 - b) the investment funds are limited to investing in instruments that are eligible for recognition under paragraphs (1) and (4) of this Article;
 - c) the investment funds meet the conditions laid down in Article 69, paragraph (2) of this Decision.

Where an investment fund invests in shares or units of another investment fund, conditions laid down in points a) to c) of this paragraph shall apply equally to any such underlying investment fund.

The use by an investment fund of derivative instruments to hedge permitted investments shall not prevent units or shares in that undertaking from being eligible as collateral.

- (6) For the purposes of paragraph (5), where an investment fund ('the original investment fund') or any of its underlying investment funds investing in instruments that are not eligible under paragraphs (1) and (4) of this Article, bank may use units or shares in that investment fund as collateral to an amount equal to the value of the eligible assets held by that investment fund under the assumption that that investment fund or any of its underlying investment funds have invested in non-eligible assets to the maximum extent allowed under their respective mandates.

Where any underlying investment fund has underlying investment fund of its own, bank may use units or shares in the original investment fund as eligible collateral provided that they apply the methodology laid down in the first subparagraph.

Where non-eligible assets can have a negative value due to liabilities or contingent liabilities resulting from ownership, banks shall do both of the following:

- a) calculate the total value of the non-eligible assets and
 - b) where the amount obtained under point a) of this paragraph is negative, subtract the absolute value of that amount from the total value of the eligible assets.
- (7) With regard to points b) to e) of this Article, where a security has two credit assessments by ECAIs, bank shall apply the less favourable assessment. Where a security has more than two credit assessments by ECAIs, bank shall apply the two most favourable assessments. Where the two most favourable credit assessments are different, bank shall apply the less favourable of the two.

Article 82

Additional eligibility of collateral under the Financial Collateral Comprehensive Method

- (1) In addition to the collateral established in Article 92 of this Decision, where a bank uses the Financial Collateral Comprehensive Method set out in Article 81 of this Decision, that bank may use the following items as eligible collateral:
- a) equities or convertible bonds not included in a main index but traded on a recognised exchange;
 - b) units or shares in investment funds where both the following conditions are met:
 - 1) the units or shares have a daily public price quote;
 - 2) the investment fund is limited to investing in instruments that are eligible for recognition under Article 81, paragraphs (1) and (4) of this Decision and the instruments mentioned in point a) of this paragraph.

In the case an investment fund invests in units or shares of another investment fund, conditions a) and b) of this paragraph equally apply to any such underlying investment fund.

The use by an investment fund of derivative instruments to hedge permitted investments shall not prevent units or shares in that undertaking from being eligible as collateral.

- (2) Where the investment fund or any underlying investment funds investing in instruments that are not eligible for recognition under Article 81, paragraphs (1) and (4) of this Decision and the items mentioned in paragraph (1) point a) of this Article, bank may use units or shares in that investment fund as collateral to an amount equal to the value of the eligible assets held by that investment fund under the assumption that that investment fund or any of its underlying investment funds have invested in non-eligible assets to the maximum extent allowed under their respective mandates.

Where non-eligible assets can have a negative value due to liabilities or contingent liabilities resulting from ownership, bank shall do both of the following:

- a) calculate the total value of the non-eligible assets and
- b) where the amount obtained under point (a) is negative, subtract the absolute value of that amount from the total value of the eligible assets.

Article 83

Other funded credit protection

Bank may use the following other funded credit protection as eligible collateral:

- a) cash on deposit with, or cash assimilated instruments held by, a third-party bank in a noncustodial arrangement and pledged to the lending bank;
- b) life insurance policies pledged to the lending bank;
- c) instruments issued by third party bank or investment firm which will be repurchased by that bank or investment firm on request.

RECOGNITION OF UNFUNDED CREDIT PROTECTION

Article 84

Eligibility of protection providers under all approaches

Bank may use the following parties as eligible providers of unfunded credit protection:

- a) central governments and central banks;
- b) regional governments or local authorities;
- c) multilateral development banks;
- d) international organisations exposures to which a 0 % risk weight under Article 58 of this Decision is assigned;

- e) public sector entities, claims on which are treated in accordance with Article 56 of this Decision;
- f) institutions, and financial institutions for which exposures to the financial institution are treated as exposures to institutions in accordance with Article 59, paragraph (4) of this Decision;
- g) other corporate entities, including parent, subsidiary and affiliate corporate entities of the bank, where those other corporate entities have a credit assessment by an ECAI.

Article 85

Eligibility of guarantees as unfunded credit protection

Banks may use guarantees as eligible unfunded credit protection.

REQUIREMENTS FOR FUNDED CREDIT PROTECTION

Article 86

Requirements for financial collateral

- (1) Financial collateral and gold shall qualify as eligible collateral under all approaches and methods where all the requirements laid down in paragraphs (2) to (4) of this Article are met.
- (2) The credit quality of the obligor and the value of the collateral shall not have a material positive correlation. Where the value of the collateral is reduced significantly, this shall not alone imply a significant deterioration of the credit quality of the obligor. Where the credit quality of the obligor becomes critical, this shall not alone imply a significant reduction in the value of the collateral.
Securities issued by the obligor, or any related group entity, shall not qualify as eligible collateral. This notwithstanding, the obligor's own issues of covered bonds falling within the terms of Article 67 of this Decision qualify as eligible collateral when they are posted as collateral for a repurchase transaction, provided that they comply with the condition set out in the first paragraph.
- (3) Bank shall fulfil any contractual and statutory requirements in respect of, and take all steps necessary to ensure, the enforceability of the collateral arrangements under the law applicable to their interest in the collateral.
Bank shall have ensured sufficient legal review confirming the enforceability of the collateral arrangements in all relevant jurisdictions. Bank shall re-conduct such review as necessary to ensure continuing enforceability.
- (4) Banks shall fulfil all the following operational requirements:
 - a) properly document the collateral arrangements and have in place clear and robust procedures for the timely liquidation of collateral;
 - b) use robust procedures and processes to control risks arising from the use of collateral, including risks of failed or reduced credit protection, valuation risks, risks associated with the termination of the credit protection, concentration risk arising from the use of collateral and the interaction with the bank's overall risk profile;
 - c) have in place documented policies and practices concerning the types and amounts of collateral accepted;
 - d) calculate the market value of the collateral, and revalue it accordingly, at least quarterly and whenever they have reason to believe that a significant decrease in the market value of the collateral has occurred;
 - e) where the collateral is held by a third party, shall take reasonable steps to ensure that the third party segregates the collateral from its own assets;
 - f) ensure that they devote sufficient resources to the orderly operation of margin agreements with other counterparties and securities-financing transaction, as measured

by the timeliness and accuracy of their outgoing margin calls and response time to incoming margin calls;

- g) have in place collateral management policies to control, monitor and report the following:
 - 1) the risks to which margin agreements expose them;
 - 2) the concentration risk to particular types of collateral assets;
 - 3) the reuse of collateral including the potential liquidity shortfalls resulting from the
 - 4) reuse of collateral received from counterparties;
 - 5) the surrender of rights on collateral posted to counterparties.
- (5) In addition to meeting all the requirements set out in paragraphs (2) to (4) of this Article, for financial collateral to qualify as eligible collateral under the Financial Collateral Simple Method the residual maturity of the protection shall be at least as long as the residual maturity of the exposure.

Article 87

Requirements for other funded credit protection

- (1) The treatment set out in Article 97, paragraph (1) of this Decision shall be eligible to apply to cash on deposit with, or cash assimilated instruments held by, a third party bank, where all the following conditions are met:
 - a) the borrower's claim against the third party bank is openly pledged or assigned to the lending bank and such pledge or assignment is legally effective and enforceable in all relevant jurisdictions and is unconditional and irrevocable;
 - b) the third party bank is notified of the pledge or assignment;
 - c) as a result of the notification, the third party bank is able to make payments solely to the lending bank or to other parties only with the lending bank's prior consent.
- (2) Life insurance policies pledged to the lending bank shall qualify as eligible collateral where all the following conditions are met:
 - a) the life insurance policy is openly pledged or assigned to the lending bank;
 - b) the company providing the life insurance is notified of the pledge or assignment and, as a result of the notification, may not pay amounts payable under the contract without the prior consent of the lending bank;
 - c) the lending bank has the right to cancel the policy and receive the surrender value in the event of the default of the borrower;
 - d) the lending bank is informed of any non-payments under the policy by the policy-holder;
 - e) the credit protection is provided for the maturity of the loan. Where this is not possible because the insurance relationship ends before the loan relationship expires, the bank shall ensure that the amount deriving from the insurance contract serves as security until the end of the duration of the credit agreement;
 - f) the pledge or assignment is legally effective and enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement;
 - g) the surrender value is declared by the company providing the life insurance and is nonreducible;
 - h) the surrender value is to be paid by the company providing the life insurance in a timely manner upon request;
 - i) the surrender value shall not be requested without the prior consent of the bank;
 - j) the company providing the life insurance is subject to applicable legal framework in Bosnia and Herzegovina or European Union or is subject to supervision by a competent authority of a third country which applies supervisory and regulatory arrangements at least equivalent to those applied in the EU.

UNFUNDED CREDIT PROTECTION

Article 88

Requirements related to guarantees

- (1) Subject to Article 89, paragraph (1) of this Decision, credit protection deriving from guarantees shall qualify as eligible unfunded credit protection where all the following conditions are met:
 - a) the credit protection is direct;
 - b) the extent of the credit protection is clearly defined and incontrovertible;
 - c) the credit protection contract does not contain any clause, the fulfilment of which is outside the direct control of the lender, that:
 - 1) would allow the protection provider to cancel the protection unilaterally;
 - 2) would increase the effective cost of protection as a result of a deterioration in the credit quality of the protected exposure;
 - 3) could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original obligor fails to make any payments due, or when the leasing contract has expired for the purposes of recognising guaranteed residual value under Article 71, paragraph (6) of this Decision;
 - 4) could allow the maturity of the credit protection to be reduced by the protection provider;
 - d) the credit protection contract is legally effective and enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement.
- (2) A bank shall demonstrate to the Agency that it has in place systems to manage potential concentration of risk arising from its use of guarantees. A bank shall be able to demonstrate how its strategy in respect of its use of guarantees interacts with its management of its overall risk profile.
- (3) A bank shall fulfil any contractual and statutory requirements in respect of, and take all steps necessary to ensure, the enforceability of its unfunded credit protection under the law applicable to its interest in the credit protection.

A bank shall ensure a legal review confirming the enforceability of the unfunded credit protection in all relevant jurisdictions. A bank shall repeat such review as necessary to ensure continuing enforceability.

Article 89

Sovereign and other public sector counter-guarantees

- (1) Bank may treat the exposures referred to in paragraph (2) of this Article as protected by a guarantee provided by the entities listed in that paragraph, provided all the following conditions are satisfied:
 - a) the counter-guarantee covers all credit risk elements of the claim;
 - b) both the original guarantee and the counter-guarantee meet the requirements for guarantees set out in Article 88 and Article 90, paragraph (1) of this Decision, except that the counter-guarantee need not be direct;
 - c) the cover is robust and nothing in the historical evidence suggests that the coverage of the counter-guarantee is less than effectively equivalent to that of a direct guarantee by the entity in question.
- (2) The treatment set out in paragraph (1) of this Article shall apply to exposures protected by a guarantee which is counter-guaranteed by any of the following entities:
 - a) a central government or central bank;
 - b) a regional government or local authority;
 - c) a public sector entity, claims on which are treated as claims on the central government in accordance with Article 56, paragraph (6) of this Decision;

- d) multilateral development bank or an international organisation, to which a 0 % risk weight is assigned under or by virtue of Article 57, paragraph (2) and Article 58 of this Decision respectively;
- (3) Bank shall apply the treatment set out in paragraph (1) of this Article also to an exposure for which counter-guarantee is issued by other entities other than those listed in paragraph (2) of this Article where that exposure's counter-guarantee is in turn directly guaranteed by one of those entities and the conditions listed in paragraph (1) of this Article are satisfied.

Article 90

Additional requirements for guarantees

- (1) Guarantees shall qualify as eligible unfunded credit protection where all the conditions in Article 88 of this Decision and all the following conditions are met:
 - a) on the qualifying default of or non-payment by the counterparty, the lending bank has the right to pursue, in a timely manner, the guarantor for any monies due under the claim in respect of which the protection is provided;
In the case of unfunded credit protection covering residential mortgage loans, the requirements in Article 88, paragraph (1) point (c) item (3) of this Decision and the first sentence in point a) of this paragraph have only to be satisfied within 24 months;
 - b) the guarantee is an explicitly documented obligation assumed by the guarantor;
 - c) either of the following conditions is met:
 - 1) the guarantee covers all types of payments the obligor is expected to make in respect of the claim;
 - 2) where certain types of payment are excluded from the guarantee, the lending bank has adjusted the value of the guarantee to reflect the limited coverage;
- (2) In the case of guarantees or counter-guaranteed by entities listed in Article 89, paragraph (2) of this Decision, the requirements in paragraph (1) point a) of this Article shall be considered to be satisfied where either of the following conditions is met:
 - a) the lending bank has the right to obtain in a timely manner a provisional payment by the guarantor that meets both the following conditions:
 - 1) it represents a robust estimate of the amount of the loss, including losses resulting from the non-payment of interest and other types of payment which the borrower is obliged to make, that the lending bank is likely to incur;
 - 2) it is proportional to the coverage of the guarantee;
 - b) the lending bank can demonstrate to the satisfaction of the Agency that the effects of the guarantee, which shall also cover losses resulting from the non-payment of interest and other types of payments which the borrower is obliged to make, justify such treatment.

CALCULATION OF THE EFFECT OF CREDIT RISK MITIGATION WITH FUNDED CREDIT PROTECTION

Article 91

Financial Collateral Simple Method

- (1) Bank may use the Financial Collateral Simple Method only where they calculate risk-weighted exposure amounts under the Standardised Approach. Bank shall not use both the Financial Collateral Simple Method and the Financial Collateral Comprehensive Method.
- (2) Under the Financial Collateral Simple Method bank shall assign to eligible financial collateral a value equal to its market value as determined in accordance with Article 86, paragraph (4) point d) of this Decision.
- (3) Bank shall assign to those portions of exposure values that are collateralised by the market value of eligible collateral the risk weight that they would assign under part of Decision

related to calculation of own funds requirements for credit risk where the lending bank had a direct exposure to the collateral instrument. For this purpose, the exposure value of an off-balance sheet item listed in Annex I shall be equal to 100 % of the item's value rather than the exposure value indicated in Article 49, paragraph (1) of this Decision.

The risk weight of the collateralised portion shall be at least 20 % except as specified in paragraphs (4) to (6) of this Article. Bank shall apply to the remainder of the exposure value the risk weight that they would assign to an unsecured exposure to the counterparty under part related to calculation of own funds requirements for credit risk.

(4) Bank shall assign a risk weight of 0 % to the collateralised portion of the exposure arising from repurchase transaction and securities lending or borrowing transactions which fulfil the criteria in Article 95 of this Decision. Where the counterparty to the transaction is not a core market participant, bank shall assign a risk weight of 10 %.

(5) Bank shall assign a risk weight of 0 %, to the extent of the collateralisation, to the exposure values determined under Articles 50 and 51 of this Decision for the financial derivative instruments listed in Annex II and subject to daily marking-to-market, collateralised by cash or cash-assimilated instruments where there is no currency mismatch.

Bank shall assign a risk weight of 10 %, to the extent of the collateralisation, to the exposure values of such transactions collateralised by debt securities issued by central governments or central banks which are assigned a 0 % risk weight under part of Decision related to own funds requirements for credit risk.

(6) For transactions other than those referred to in paragraphs (4) and (5) of this Article, bank may assign a 0 % risk weight where the exposure and the collateral are denominated in the same currency, or where the currency of exposure and the collateral is BAM and EUR or vice versa, and during the currency board in BiH if either of the following conditions is met:

- a) the collateral is cash on deposit or a cash assimilated instrument;
- b) the collateral is in the form of debt securities issued by central governments or central banks eligible for a 0 % risk weight under Article 54 of this Decision, and its market value has been discounted by 20 %.

(7) For the purpose of paragraphs (5) and (6) of this Article debt securities issued by central governments or central banks shall include:

- a) debt securities issued by the Government of the FBiH, Government of RS and Government of Brčko District, and debt securities issued by regional governments or local authorities, exposures to which are treated as exposures to the central government under Article 55, paragraph (5) of this Decision;
- b) debt securities issued by multilateral development banks to which a 0 % risk weight is assigned under or by virtue of Article 57, paragraph (2) of this Decision;
- c) debt securities issued by international organisations which are assigned a 0 % risk weight under Article 58 of this Decision;
- d) debt securities issued by public sector entities, which are treated as exposures to central governments in accordance with Article 56, paragraph (6) of this Decision.

Article 92

Financial Collateral Comprehensive Method

(1) When valuing financial collateral for the purposes of the Financial Collateral Comprehensive Method bank shall apply volatility adjustments to the market value of collateral, as set out in Articles 93 to 95 of this Decision, in order to take account of price volatility.

Where collateral is denominated in a currency that differs from the currency in which the underlying exposure is denominated, bank shall add an adjustment reflecting currency

volatility to the volatility adjustment appropriate to the collateral as set out in Articles 93 to 95 of this Decision.

- (2) In calculation the volatility-adjusted value of the collateral (C_{VA}) bank need to take into account as follows:

$$C_{VA} = C \cdot (1 - H_C - H_{fx})$$

where:

- C = the value of the collateral;
 H_C = the volatility adjustment appropriate to the collateral, as calculated under Articles 93 and 95 of this Decision;
 H_{fx} = the volatility adjustment appropriate to currency mismatch, as calculated under Articles 93 and 95 of this Decision.

Bank shall use the formula in this paragraph when calculating the volatility-adjusted value of the collateral for all transactions.

- (3) In calculation of the volatility-adjusted value of the exposure (E_{VA}) bank shall take into account as follows:

$$E_{VA} = E \cdot (1 + H_E)$$

where:

- E = the exposure value as would be determined under part of Decision related to calculation of own fund requirements for credit risk under Standardised Approach, where the exposure was not collateralised;
 H_E = the volatility adjustment appropriate to the exposure, calculated under Articles 93 and 95 of this Decision.

- (4) For the purpose of calculating “E” in paragraph (3) this Article, the exposure value of an off-balance sheet item listed in Annex I shall be 100 % of that item's value rather than the exposure value indicated in Article 49, paragraph (1) of this Decision;

- (5) Bank shall calculate the fully adjusted value of the exposure (E^*), taking into account both volatility and the risk-mitigating effects of collateral as follows:

$$E^* = \max \{0, E_{VA} - C_{VAM}\}$$

where:

- E_{VA} = the volatility adjusted value of the exposure as calculated in paragraph (3) of this Article;
 C_{VAM} = C_{VA} further adjusted for any maturity mismatch in accordance with the provisions of Articles 100 to 102 of this Decision related to maturity mismatches.

- (6) Where the collateral consists of a number of eligible items, bank shall calculate the volatility adjustment (H) as follows.

$$H = \sum_i a_i H_i$$

where:

- a_i = the proportion of the value of an eligible item “ i ” in the total value of collateral
 H_i = the volatility adjustment applicable to eligible item “ i ”.

Article 93

Supervisory volatility adjustment under the Financial Collateral Comprehensive Method

- (1) The volatility adjustments to be applied by banks under the Supervisory Volatility Adjustments Approach, assuming daily revaluation, shall be those set out in tables 10 to 13 of this paragraph.

VOLATILITY ADJUSTMENTS

Table 10

Credit quality step with which the credit assessment of the debt security is associated	Residual Maturity	Volatility adjustments for debt securities issued by entities described in Article 81, paragraph (1) point b) of this Decision			Volatility adjustments for debt securities issued by entities described in Article 81, paragraph (1) points c) and d) of this Decision		
		20-day liquidation period (%)	10-day liquidation period (%)	5-day liquidation period (%)	20-day liquidation period (%)	10-day liquidation period (%)	5-day liquidation period (%)
1	≤ 1 year	0,707	0,5	0,354	1,414	1	0,707
	>1 ≤ 5 years	2,828	2	1,414	5,657	4	2,828
	> 5 years	5,657	4	2,828	11,314	8	5,657
2-3	≤ 1 year	1,414	1	0,707	2,828	2	1,414
	>1 ≤ 5 years	4,243	3	2,121	8,485	6	4,243
	> 5 years	8,485	6	4,243	16,971	12	8,485
4	≤ 1 year	21,213	15	10,607	N/A	N/A	N/A
	>1 ≤ 5 years	21,213	15	10,607	N/A	N/A	N/A
	> 5 years	21,213	15	10,607	N/A	N/A	N/A

Table 11

Credit quality step with which the credit assessment of a short term debt security is associated	Volatility adjustments for debt securities issued by entities described in Article 81, paragraph (1) point b) of this Decision with short-term credit assessments			Volatility adjustments for debt securities issued by entities described in Article 81, paragraph (1) points c) and d) of this Decision with short-term credit assessments		
	20-day liquidation period (%)	10-day liquidation period (%)	5-day liquidation period (%)	20-day liquidation period (%)	10-day liquidation period (%)	5-day liquidation period (%)
1	0,707	0,5	0,354	1,414	1	0,707
2-3	1,414	1	0,707	2,828	2	1,414

Table 12

Other collateral or exposure types

	20-day liquidation period (%)	10-day liquidation period (%)	5-day liquidation period (%)
Main Index Equities, Main Index Convertible Bonds	21,213	15	10,607
Other Equities or Convertible Bonds listed on a recognised exchange	35,355	25	17,678
Cash	0	0	0
Gold	21,213	15	10,607

Table 13

Volatility adjustment for currency mismatch

20-day liquidation period (%)	10-day liquidation period (%)	5-day liquidation period (%)
11,314	8	5,657

- (2) The calculation of volatility adjustments in accordance with paragraph (1) of this Article shall be subject to the following conditions:
- for secured lending transactions the liquidation period shall be 20 business days;
 - for repurchase transactions, except insofar as such transactions involve the transfer of commodities or guaranteed rights relating to title to commodities, and securities lending or borrowing transactions the liquidation period shall be 5 business days;
 - for other capital market driven transactions, the liquidation period shall be 10 business days.
- (3) The credit quality step with which a credit assessment of the debt security is associated in tables 10 to 13 and paragraphs (4) to (6) of this Article is the credit quality step under the part of this Decision relate to calculation of own funds requirements for credit risk. For the purpose of determining the credit quality step with which a credit assessment of the debt security is associated referred to in paragraph (1), Article 81, paragraph (7) of this Decision also applies.
- (4) For non-eligible securities or for commodities lent or sold under repurchase transactions or securities or commodities lending or borrowing transactions to/from counterparty, the volatility adjustment is the same as for non-main index equities listed on a recognised exchange.
- (5) For eligible units in investment funds the volatility adjustment is the weighted average volatility adjustments that would apply, having regard to the liquidation period of the transaction as specified in paragraph (2) of this Article, to the assets in which the fund has invested. Where the assets in which the fund has invested are not known to the bank, the volatility adjustment is the highest volatility adjustment that would apply to any of the assets in which the fund has the right to invest.
- (6) For unrated debt securities issued by institutions or investment firms and satisfying the eligibility criteria in Article 81, paragraph (4) of this Decision the volatility adjustments is the same as for securities issued by institutions or corporates with an external credit assessment associated with credit quality steps 2 or 3.
- (7) In the event of currency mismatch between the exposure and deposits used to cover exposure, banks shall apply the volatility adjustments form table 13 of this Article, only that during the currency board in BiH, the volatility adjustments of 0% shall be applied when the convertible mark or euro are currencies of exposures or vice versa.

Article 94

Scaling up of volatility adjustment under the Financial Collateral Comprehensive method

The volatility adjustments set out in Article 93 of this Decision are the volatility adjustments a bank shall apply where there is daily revaluation. Where the frequency of revaluation is less than daily, banks shall apply larger volatility adjustments. Banks shall calculate them by scaling up the daily revaluation volatility adjustments, using the following square- root-of-time formula:

$$H = H_M \cdot \sqrt{\frac{N_R + (T_M - 1)}{T_M}}$$

where:

- H = the volatility adjustment to be applied;
H_M = the volatility adjustment where there is daily revaluation;
N_R = the actual number of business days between revaluations;
T_M = the liquidation period for the type of transaction in question.

Article 95

Conditions for applying a 0 % volatility adjustment under the Financial Collateral Comprehensive method

- (1) In relation to repurchase transactions and securities lending or borrowing transactions, where a bank uses the supervisory volatility adjustments approach under Article 93 of this Decision and where the conditions set out in points a) to h) of paragraph (2) of this Article are satisfied, bank may, instead of applying the volatility adjustments calculated under Articles 93 and 94 of this Decision, apply a 0 % volatility adjustment.
- (2) Bank may apply a 0 % volatility adjustment where all the following conditions are met:
 - a) both the exposure and the collateral are cash or debt securities issued by central governments or central banks within the meaning of Article 81, paragraph (1) point b) of this Decision and eligible for a 0 % risk weight under the part of the Decision related to calculation of own fund requirements for credit risk.
 - b) both the exposure and the collateral are denominated in the same currency;
 - c) either the maturity of the transaction is no more than one day or both the exposure and the collateral are subject to daily marking-to-market or daily re-margining;
 - d) the time between the last marking-to-market before a failure to re-margin by the counterparty and the liquidation of the collateral is no more than four business days;
 - e) the transaction is settled in a settlement system proven for that type of transaction;
 - f) the documentation covering the agreement or transaction is standard market documentation for repurchase transactions or securities lending or borrowing transactions in the securities concerned to/from counterparty;
 - g) the transaction is governed by documentation specifying that where the counterparty fails to satisfy an obligation to deliver cash or securities or to deliver margin or otherwise defaults, then the transaction is immediately terminable;
 - h) the counterparty is considered a core market participant by the competent authorities.
- (3) The core market participants referred to in point (h) of paragraph 2 shall include the following entities:
 - a) the entities mentioned in Article 81, paragraph (1) point b) of this Decision exposures to which are assigned a 0 % risk weight under part of the Decision relate to calculation of own funds requirements for credit risk under standardised approach;
 - b) institutions;
 - c) investment firms;
 - d) other financial institutions exposures to which are assigned a 20 % risk weight under the part of Decision related to calculation of own funds requirements for credit risk;
 - e) regulated investment funds that are subject to capital or leverage requirements;
 - f) regulated pension funds;
 - g) recognised clearing organisations.

Article 96

Calculating risk-weighted exposure amounts and expected loss amounts under the Financial Collateral Comprehensive method

Under the Standardised Approach, bank shall use E* as calculated under Article 92, paragraph (5) of this Decision as the exposure value for the purposes of Article 53 of this Decision. In the case of off-balance sheet items listed in Annex I of this Decision, bank shall use E* as the value

to which the percentages indicated in Article 49, paragraph (1) of this Decision shall be applied to arrive at the exposure value.

Article 97

Other funded credit protection

- (1) Where the conditions set out in Article 87, paragraph (1) of this Decision are met, deposits with third party bank may be treated as a guarantee by the third party bank.
- (2) Where the conditions set out in Article 87, paragraph (2) of this Decision are met, bank shall assign a risk weight set out in paragraph (3) of this Article, subject the portion of the exposure collateralised by the current surrender value of life insurance policies pledged to the lending bank, where the exposure is subject to the Standardised Approach.
In the event of a currency mismatch, bank shall reduce the current surrender value in accordance with Article 98, paragraph (3) of this Decision, where the value of the credit protection being the current surrender value of the life insurance policy.
- (3) For the purposes of paragraph (2) this Article, bank shall assign the following risk weights on the basis of the risk weight assigned to a senior unsecured exposure to the undertaking providing the life insurance, under the part of this Decision related to the calculation of own funds requirements for credit risk:
 - a) a risk weight of 20 %, where the senior unsecured exposure to the undertaking providing the life insurance is assigned a risk weight of 20 %;
 - b) a risk weight of 35 %, where the senior unsecured exposure to the undertaking providing the life insurance is assigned a risk weight of 50 %;
 - c) a risk weight of 70 %, where the senior unsecured exposure to the undertaking providing the life insurance is assigned a risk weight of 100 %;
 - d) a risk weight of 150 %, where the senior unsecured exposure to the undertaking providing the life insurance is assigned a risk weight of 150 %.
- (4) Bank may treat instruments repurchased on request that are eligible under Article 83, point c) of this Decision as a guarantee by the issuing bank or investment firm. The value of the eligible credit protection shall be the following
 - a) where the instrument will be repurchased at its face value, the value of the protection shall be that amount
 - b) where the instrument will be repurchased at market price, the value of the protection shall be the value of the instrument valued in the same way as the debt securities that meet the conditions in Article 81, paragraph (4) of this Decision.

CALCULATION OF CRM EFFECTS WITH UNFUNDED CREDIT PROTECTION

Article 98

Valuation

- (1) For the purpose of calculating the effects of unfunded credit protection in accordance with this Section, the value of unfunded credit protection (G) shall be the amount that the protection provider has undertaken to pay in the event of the default or non-payment of the borrower or on the occurrence of other specified credit events.
- (2) Where unfunded credit protection is denominated in a currency different from that in which the exposure is denominated, banks shall reduce the value of the credit protection by the application of a volatility adjustment as follows:

$$G^* = G \cdot (1 - H_{fx})$$

where:

- G* = the amount of credit protection adjusted for foreign exchange risk,
G = the amount of credit protection adjusted for foreign exchange risk;

H_{fx} = the volatility adjustment for any currency mismatch between the credit protection and the underlying obligation determined in accordance with paragraph (3) of this Article.

Where there is no currency mismatch, " H_{fx} " is equal to zero, and during the currency board in BiH the zero value shall be applied for the cases when the BAM or EUR, or vice versa is the currency of exposure and of unfunded credit protection.

- (3) Bank shall base the volatility adjustments for any currency mismatch on a 10 business day liquidation period, assuming daily revaluation, and may calculate them based on the regulatory volatility adjustments approaches under Article 93 of this Decision. Bank shall scale up the volatility adjustments in accordance with Article 94 of this Decision.

Article 99

Calculating risk-weighted exposure amounts under the Standardised Approach

- (1) For the purpose of Article 53, paragraph (3) of this Decision bank shall calculate the risk-weighted exposure amounts in accordance with the following formula:

$$\max \{0, E - G_A\} \cdot r + G_A \cdot g$$

where:

E = the exposure value in accordance with Article 49 of this Decision. For this purpose, the exposure value of an off-balance sheet item listed in Annex I of the Decision shall be 100 % of its value rather than the exposure value indicated in Article 49, paragraph (1) of this Decision;

G_A = the amount of credit risk protection as calculated under Article 98, paragraph (2) of this Decision (G^*), further adjusted for any maturity mismatch as laid down in the part of the Decision related to maturity mismatching;

r = the risk weight of exposures to the obligor as specified under part of Decision related to calculation of own funds requirements for credit risk under standardised approach;

g = the risk weight of exposures to the protection provider as specified under part of Decision related to calculation of own funds requirements for credit risk under standardised approach.

- (2) Where the protected amount (G_A) is less than the exposure (E), bank may apply the formula specified in paragraph (1) of this Article only where the protected and unprotected parts of the exposure are of equal seniority.
- (3) Bank may extend the treatment set out in Article 54, paragraphs (4) and (6) of this Decision to exposures or parts of exposures guaranteed by the central government or central bank, where the guarantee is denominated in the domestic currency of the borrower and the exposure is funded in that currency.

Article 100

Maturity mismatch

- (1) For the purpose of calculating risk-weighted exposure amounts, a maturity mismatch occurs when the residual maturity of the credit protection is less than that of the protected exposure. Where protection has a residual maturity of less than three months and the maturity of the protection is less than the maturity of the underlying exposure that protection does not qualify as eligible credit protection.
- (2) Where there is a maturity mismatch the credit protection shall not qualify as eligible where the original maturity of the protection is less than 1 year.

Article 101

Maturity of credit protection

- (1) Subject to a maximum of five years, the effective maturity of the underlying shall be the longest possible remaining time before the obligor is scheduled to fulfil its obligations. Subject to paragraph (2) of this Article, the maturity of the credit protection shall be the time to the earliest date at which the protection may terminate or be terminated.
- (2) Where there is an option to terminate the protection which is at the discretion of the protection seller, banks shall take the maturity of the protection to be the time to the earliest date at which that option may be exercised. Where there is an option to terminate the protection which is at the discretion of the protection buyer and the terms of the arrangement at origination of the protection contain a positive incentive for the bank to call the transaction before contractual maturity, a bank shall take the maturity of the protection to be the time to the earliest date at which that option may be exercised; otherwise the bank may consider that such an option does not affect the maturity of the protection.

Article 102

Valuation of protection

- (1) For transactions subject to funded credit protection under the Financial Collateral Simple Method, where there is a mismatch between the maturity of the exposure and the maturity of the protection, the collateral does not qualify as eligible funded credit protection.
- (2) For transactions subject to funded credit protection under the Financial Collateral Comprehensive Method, banks shall reflect the maturity of the credit protection and of the exposure in the adjusted value of the collateral according to the following formula:

$$C_{VAM} = C_{VA} \cdot \frac{t - t^*}{T - t^*}$$

where:

C_{VA} = the volatility adjusted value of the collateral as specified in Article 92, paragraph (2) of this Decision or the amount of the exposure, whichever is lower;

t = the number of years remaining to the maturity date of the credit protection calculated in accordance with Article 101 of this Decision, or the value of T , whichever is lower;

T = the number of years remaining to the maturity date of the exposure calculated in accordance with Article 101 of this Decision, or five years, whichever is lower;

t^* = 0,25.

Bank shall use C_{VAM} as C_{VA} further adjusted for maturity mismatch in the formula for the calculation of the fully adjusted value of the exposure (E^*) set out in Article 92, paragraph (5) of this Decision.

- (3) For transactions subject to unfunded credit protection, banks shall reflect the maturity of the credit protection and of the exposure in the adjusted value of the credit protection according to the following formula:

$$G_A = G^* \cdot \frac{t - t^*}{T - t^*}$$

where:

G_A = G^* adjusted for any maturity mismatch;

G^* = the amount of the protection adjusted for any currency mismatch;

t = the number of years remaining to the maturity date of the credit protection calculated in accordance with Article 101 of this Decision, or the value of T , whichever is lower;

is the number of years remaining to the maturity date of the exposure calculated
 $T =$ in accordance with Article 101 of this Decision, or five years, whichever is lower;
 $t^* = 0,25$.

Banks shall use G_A as the value of the protection for the purposes of Articles 98 and 99 of this Decision.

VI. OWN FUNDS REQUIREMENTS FOR SETTLEMENT / DELIVERY RISK

Article 103

Settlement/delivery risk

- (1) In the case of transactions in which debt instruments, equities, foreign currencies and commodities excluding repurchase transactions and securities or commodities lending and securities or commodities borrowing are unsettled after their due delivery dates, a bank shall calculate the price difference to which it is exposed.
- (2) Bank shall calculate own funds requirement for settlement/ delivery risk based on unsettled transactions, when counterparty fails to settle transaction for more than four business days after due settlement/delivery date.
- (3) The price difference is calculated as the difference between the agreed settlement price for the debt instrument, equity, foreign currency or commodity in question and its current market value, where the difference could involve a loss for the bank.

Bank shall multiply that price difference by the appropriate factor in Table 14 in order to calculate the bank's own funds requirement for settlement risk.

Table 14

Number of working days after due settlement date	(%)
5 — 15	12
16 — 30	50
31 — 45	75
46 or more	100

Article 104

Free deliveries

- (1) A bank shall be required to hold own funds, as set out in table 15, where the following occurs:
 - a) it has paid for securities, foreign currencies or commodities before receiving them or it has delivered securities, foreign currencies or commodities before receiving payment for them;
 - b) in the case of cross-border transactions, one day or more has elapsed since it made that payment or delivery.

Table 15

Column 1	Column 2	Column 3	Column 4
Transaction Type	Up to first contractual payment or delivery leg	From first contractual payment or delivery leg up to four days after second contractual payment or delivery leg	From 5 business days post second contractual payment or delivery leg until extinction of the transaction
Free delivery	No capital charge	Treat as an exposure	Treat as an exposure risk weighted at 1 250 %

If the amount of positive exposure resulting from free delivery transactions is not material, bank may apply a risk weight of 100 % to these exposures, except where a risk weight of 1 250 % in accordance with Column 4 of table 15 is required.

- (2) As an alternative to applying a risk weight of 1 250 % to free delivery exposures according to Column 4 of table 15, bank may deduct the value transferred plus the current positive exposure of those exposures from Common Equity Tier in accordance with point 1), paragraph (1) of Article 9 of this Decision.

Article 105

Waiver

Where a system wide failure of a settlement system or a clearing system, the Agency may waive the own funds requirements calculated as set out in part of Decision related to settlement / delivery risk until the situation is rectified. In this case, the failure of a counterparty to settle a trade shall not be deemed a default for purposes of credit risk.

VII. OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK

Article 106

Permission

- (1) To qualify for use of the Standardised Approach and to obtain the permission from the Agency, bank shall meet the criteria set out in Article 112 of this Decision, in addition to meeting the general risk management standards, and shall have adopted operational risk recovery plan.
- (2) Bank shall in place policies and procedures to evaluate and manage the exposure to operational risk to cover low-frequency high-severity events. Bank shall articulate what constitutes operational risk for the purposes of those policies and procedures.
- (3) Bank shall ensure that contingency and business continuity plans are in place to ensure a bank's ability to operate on an ongoing basis and limit losses in the event of severe business disruption.

Article 107

Reverting to the use of less sophisticated approaches

- (1) Bank that use the Standardised Approach shall not revert to the use of the Basic Indicator Approach unless the conditions in paragraph (2) of this Article are met.
- (2) Bank may only revert to the use of a less sophisticated approach for operational risk where both the following conditions are met:
 - a) bank has demonstrated to the satisfaction of the Agency that the use of a less sophisticated approach is not proposed in order to reduce the operational risk related own funds requirements of the bank, is necessary on the basis of nature and complexity of the bank and would not have a material adverse impact on the solvency of the bank or its ability to manage operational risk effectively;
 - b) bank has received the prior permission of the Agency.

Article 108

Basic Indicator Approach

- (1) Under the Basic Indicator Approach, the own funds requirement for operational risk is equal to 15 % of the average over three years of the relevant indicator as set out in Article 109 of this Decision. Bank shall calculate the average over three years of the relevant indicator on the basis of the last three twelve-monthly observations at the end of the financial year.

- (2) Where a bank has been in operation for less than three years it may use forward-looking business estimates in calculating the relevant indicator, provided that it starts using historical data as soon as it is available.
- (3) Where a bank can prove to the Agency that, due to a merger, an acquisition or a disposal of bank or activities, using a three year average to calculate the relevant indicator would lead to a biased estimation for the own funds requirement for operational risk, the Agency may permit banks to amend the calculation in a way that would take into account such events. In such circumstances, the Agency may, on its own initiative, also require a bank to amend the calculation.
- (4) Where for any given observation, the relevant indicator is negative or equal to zero, bank shall not take into account this figure in the calculation of the average over three years. Bank shall calculate the average over three years as the sum of positive figures divided by the number of positive figures.

Article 109
Relevant indicator

- (1) Bank shall apply the International accounting standards and the relevant indicator is the sum of the elements listed in table 16 of this paragraph. Bank shall include each element in the sum with its positive or negative sign.

Table 16

1. Interest receivable and similar income
2. Interest payable and similar charges
3. Income from shares and other variable/fixed-yield securities
4. Commissions/fees receivable
5. Commissions/fees payable
6. Net profit or net loss on financial operations, which includes: - Net income/expense on securities held for trading changes valued at fair value in income statement, - net profit/loss on sale of securities held for trading, - net exchange differences
7. Other operating income

- (2) Bank shall not use the following elements in the calculation of the relevant indicator:
 - a) charges for value adjustments and provisioning to cover expected credit losses for off-balance sheet items, or for income based on their reduction, and business operating expenses,
 - b) net profit/loss from the sale of non-trading book items,
 - c) income from extraordinary or irregular items and
 - d) income derived from insurance.
- (3) Exceptionally, when calculating the relevant indicator a bank shall include in operating expenses fees paid for outsourcing services rendered by third parties which are not a parent or subsidiary of the bank or a subsidiary of a parent.

Article 110
Standardised Approach

- (1) Under the Standardised Approach, banks shall divide their activities into the business lines set out in table 17 of this Article and in accordance with the principles set out in Article 111 of this Decision.
- (2) Bank shall calculate the own funds requirement for operational risk as the average over three years of the sum of the annual own funds requirements across all business lines

referred to in table 17 of this Article. The annual own funds requirement of each business line is equal to the product of the corresponding beta factor referred to in that table and the part of the relevant indicator mapped to the respective business line.

- (3) In any given year, bank may offset negative own funds requirements resulting from a negative part of the relevant indicator in any business line with positive own funds requirements in other business lines without limit. However, where the aggregate own funds requirement across all business lines within a given year is negative, banks shall use the value zero as the input to the numerator for that year.
- (4) Bank shall calculate the average over three years of the sum referred to in paragraph (2) of this Article on the basis of the last three twelve-monthly observations at the end of the financial year. When audited figures are not available, bank may use business estimates. Where a bank can prove to the Agency that, due to a merger, an acquisition or a disposal of bank or activities, using a three year average to calculate the relevant indicator would lead to a biased estimation for the own funds requirement for operational risk, the Agency may permit bank to amend the calculation in a way that would take into account such events. In such circumstances, the Agency may, on its own initiative, also require a bank to amend the calculation. Where a bank has been in operation for less than three years it may use forward looking business estimates in calculating the relevant indicator, provided that it starts using historical data as soon as it is available.

Table 17

Business line	List of activities	Percentage (beta factor)
Corporate finance	Underwriting of financial instruments or placing of financial instruments on a firm commitment basis Services related to underwriting Investment advice Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to the mergers and the purchase of undertakings Investment research and financial analysis and other forms of general recommendation relating to transactions in financial instruments	18 %
Trading and sales	Dealing on own account Money broking Reception and transmission of orders in relation to one or more financial instruments Execution of orders on behalf of clients Placing of financial instruments without a firm commitment basis Operation of Multilateral Trading Facilities	18 %
Retail brokerage (Activities with natural persons or with SMEs meeting the criteria set out in Article 123 for the retail exposure class)	Reception and transmission of orders in relation to one or more financial instruments Execution of orders on behalf of clients Placing of financial instruments without a firm commitment basis	12 %
Commercial banking	Acceptance of deposits and other repayable funds Lending Financial leasing Guarantees and commitments	15 %
Retail banking	Acceptance of deposits and other repayable funds	12 %

(Activities with natural persons or with SMEs meeting the criteria set out in Article 123 for the retail exposure class)	Lending Financial leasing Guarantees and commitments	
Payment and settlement	Money transmission services, Issuing and administering means of payment	18 %
Agency services	Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management	15 %
Asset management	Portfolio management Managing of UCITS Other forms of asset management	12 %

Remark: Bank shall use the activities specific for its operations and market where its operates.

Article 111

Principles for business line mapping

- (1) Bank shall develop and document specific policies and criteria for mapping the relevant indicator for current business lines and activities into the standardised framework set out in Article 110 of this Decision. Bank review and adjust those policies and criteria as appropriate for new or changing business activities and risks.
- (2) Bank shall apply the following principles for business line mapping:
 - a) bank shall map all activities into the business lines in a mutually exclusive and jointly exhaustive manner;
 - b) bank shall allocate any activity which cannot be readily mapped into the business line framework, but which represents an ancillary activity to an activity included in the framework, to the business line it supports. Where more than one business line is supported through the ancillary activity, bank shall use an objective-mapping criterion;
 - c) where an activity cannot be mapped into a particular business line then bank shall use the business line yielding the highest percentage. The same business line equally applies to any ancillary activity associated with that activity;
 - d) bank may use internal pricing methods to allocate the relevant indicator between business lines. Costs generated in one business line which are imputable to a different business line may be reallocated to the business line to which they pertain;
 - e) the mapping of activities into business lines for operational risk capital purposes shall be consistent with the categories banks use for credit and market risks;
 - f) senior management shall be responsible for the mapping policy under the control of the supervisory body of the bank;
 - g) bank shall subject the mapping process to business lines to independent review.

Article 112

Criteria for the Standardised Approach

The criteria referred to in Article 106, paragraph (1) of this Decision are the following:

- a) bank shall have in place a well-documented assessment and management system for operational risk with clear responsibilities assigned for this system. Bank shall identify its exposures to operational risk and track relevant operational risk data, including material loss data. This system shall be subject to regular independent review carried out by an internal or external party possessing the necessary knowledge to carry out such review;
- b) a bank's operational risk assessment system shall be closely integrated into the risk management processes of the bank. Its output shall be an integral part of the process of monitoring and controlling the bank's operational risk profile;

- c) a bank shall implement a system of reporting on operational risk exposures to senior management and supervisory board and shall have in place procedures for taking appropriate action according to the information within the reports to management.

Article 113

Combined use of different approaches

- (1) Bank shall request permission from the Agency to use a combination of the Basic Indicator Approach and the Standardised Approach only in exceptional circumstances such as the recent acquisition of new business which may require a transition period for the application of the Standardised Approach.
- (2) The Agency shall grant permission referred to in paragraph (1) of this Article only where the bank has committed to apply the Standardised Approach within a time schedule that was submitted to and approved by the Agency.

VIII OWN FUNDS REQUIREMENTS FOR MARKET RISK REQUIREMENTS FOR THE TRADING BOOK

Article 114

Requirements for the Trading Book

- (1) The trading book of a bank in accordance with Article 2, point oo) of the Banking Law shall consist of all positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Positions in the trading book shall be either free of restrictions on their tradability or able to be hedged.
- (2) The trading book shall consist of all positions which under applicable accounting standards shall be allocated in the category of financial asset or financial liability at fair value in income statement of the bank (positions held with trading intent).
Where it finds that specific instrument is not used for trading, the Agency may exclude it from the trading book of bank, regardless its allocation under the applicable accounting standards. Where it finds that specific instrument is used for trading, the Agency may include it in the trading book of bank, regardless its allocation under the applicable accounting standards.
- (3) Trading intent shall be evidenced on the basis of the strategies, policies and procedures set up by the bank to manage the position or portfolio in accordance with Articles 115 and 116 of this Decision.
- (4) Positions held with trading intent are those held intentionally for short-term resale and/or with the intention of benefiting from actual or expected short-term price differences between buying and selling prices or from other price or interest rate variations. These positions shall include proprietary positions and positions arising from client servicing and market making activities.
- (5) Bank shall establish and maintain adequate internal systems and controls to manage assess their trading book value in accordance with Article 115 of this Decision.
- (6) Positions in the trading book shall be subject to the regulatory valuation requirements specified in Article 117 of this Decision.
- (7) Bank may include internal hedges in the calculation of capital requirements for position risk provided that they are held with trading intent and that the requirements of Article 118 of this Decision are met.
- (8) The embedded financial derivative which is pursuant to the provisions of IAS/IFRS considered as stand-alone financial derivatives, which do not comply with conditions set out in paragraph (1) of this Article, shall not be considered as trading book position and shall not be included in calculation of own funds requirements for market risk.

Where embedded financial derivative is not presenting a trading book position, bank shall monitor, assess and manage risks arising from it, and shall take them into consideration within the internal capital adequacy assessment process in banks.

Article 115

Management of the positions in trading book

- (1) Bank shall have in place clearly defined policies and procedures for the overall management of the trading book that shall at least address:
 - a) the activities which bank considers to be trading business and as constituting part of the trading book for own funds requirement purposes;
 - b) the extent to which a position can be marked-to-market daily by reference to an active, liquid two-way market;
 - c) for positions that are valued under an internal valuation methodology, the extent to which bank can:
 - 1) identify all material risks of the position;
 - 2) hedge all material risks of the position with instruments for which an active, liquid two-way market exists;
 - 3) derive reliable estimates for the key assumptions and parameters used in the model;
 - 4) the extent to which bank can, and is required to, generate valuations for the position that can be validated externally in a consistent manner;
 - 5) the extent to which legal restrictions or other operational requirements would impede bank's ability to effect a liquidation or hedge of the position in the short term;
 - 6) the extent to which bank can, and is required to, actively manage the risks of positions within its trading operation;
 - 7) the extent to which bank may reclassify risk or positions between the non-trading and trading books and the requirements for such reclassifications as referred to in Article 116 of this Decision.
- (2) In managing its positions or portfolios of positions in the trading book, bank shall comply with all the following requirements:
 - a) bank shall have in place a clearly documented trading strategy for the position or portfolios in the trading book, which shall be approved by senior management and include the expected holding period;
 - b) bank shall have in place clearly defined policies and procedures for the active management of positions or portfolios in the trading book. Those policies and procedures shall include the following:
 - 1) which positions or portfolios of positions may be entered into by each trading desk;
 - 2) the setting of position limits and monitoring them for appropriateness;
 - 3) ensuring that dealers have the autonomy to enter into and manage the position within agreed limits and according to the approved strategy;
 - 4) ensuring that positions are reported to senior management as an integral part of the bank's risk management process;
 - 5) ensuring that positions are actively monitored with reference to market information sources and an assessment is made of the marketability or hedgeability of the position or its component risks, including the assessment, the quality and availability of market inputs to the valuation process, level of market turnover, sizes of positions traded in the market;

- 6) active anti-fraud procedures and controls;
- c) bank shall have in place clearly defined policies and procedures to monitor the positions against the bank's trading strategy, including the monitoring of turnover and positions for which the originally intended holding period has been exceeded.

Article 116

Inclusion of the positions in the Trading Book

- (1) Banks shall have in place clearly defined policies and procedures for determining which position to include in the trading book for the purposes of calculating their capital requirements, in accordance with the requirements set out in Article 114 of this Decision and the definition of trading book, taking into account risk management procedures established in the bank. Bank shall fully document its compliance with these policies and procedures and shall subject them to periodic internal audit.
- (2) A bank shall have in place clearly defined policies for identifying the exceptional circumstances which justify the reclassification of a trading book position as a non-trading book position or, conversely, the reclassification of a non-trading book position as a trading book position, for the purpose of determining its own funds requirements to the satisfaction of the Agency.
A bank shall review those policies at least annually.
- (3) The Agency shall grant permission to reclassify a trading book position as a non-trading book position or conversely a non-trading book position as a trading book position for the purpose of determining its own funds requirements only where a bank has provided the Agency with written evidence that its decision to reclassify that position is the result of an exceptional circumstance that is consistent with the policies the bank has in place in accordance with paragraph (2) of this Article. For that purpose, the bank shall provide sufficient evidence that the position no longer meets the condition to be classified as a trading book or non-trading book position pursuant to the requirements of this Article.
- (4) The decision of a bank referred to in paragraph (3) of this Article shall be approved by the management body.
- (5) Where the Agency has granted permission for the reclassification of a position in accordance with paragraph (3) of this Article, a bank which received that permission shall:
 - a) publicly disclose, without delay,
 - 1) information that its position has been reclassified, and
 - 2) where the effect of that reclassification is a reduction in the bank's own funds requirements, the size of that reduction; and
 - b) where the effect of that reclassification is a reduction in the bank's own funds requirements, not recognise that effect until the position matures.
- (6) A bank shall calculate the net change in the amount of its own funds requirements arising from the reclassification of the position as the difference between the own funds requirements immediately after the reclassification and the own funds requirements immediately before the reclassification, each calculated in accordance with Article 38 of this Decision. The calculation shall take into account only the effects of the reclassification.
- (7) The reclassification of a position in accordance with this Article shall be irrevocable.

Article 117

Regulatory Valuation Requirements

- (1) All trading book and non-trading book positions measured at fair value shall be subject to the standards for prudent valuation specified in this Article. Banks shall in particular ensure that the prudent valuation of their trading book positions achieves an appropriate degree of

certainty having regard to the dynamic nature of trading book positions and non-trading book positions measured at fair value, the demands of prudential soundness and the mode of operation and purpose of capital requirements in respect of trading book positions and non-trading book positions measured at fair value.

- (2) Bank shall establish and maintain internal systems and controls sufficient to provide prudent and reliable valuation estimates. Those internal systems and controls shall include at least the following elements:
 - a) documented policies and procedures for the process of valuation, including clearly defined responsibilities of the various participants involved in the determination of the valuation, sources of market information and review of their appropriateness, guidelines for the use of unobservable inputs reflecting the bank's assumptions of what market participants would use in pricing the position, frequency of independent valuation, timing of closing prices, conditions and procedures for adjusting valuations, month end and ad-hoc verification procedures;
 - b) establish an adequate organisational structure which is to ensure autonomy of separated functions in terms of the contracting, book recording, reporting and decision-making, and clear definition of responsibilities for members of banks management for functions concerned;
 - c) reporting lines for the department accountable for the valuation of trading book positions that is independent of organisational unit responsible for operational part of trading activities, and regular reporting to the bank management.
- (3) A bank shall revalue trading book positions at fair value at least on a daily basis. Changes in the value of those positions shall be reported in the profit and loss account of the bank.
- (4) A bank shall mark its trading book positions and non-trading book positions measured at fair value to market whenever possible, including when applying the relevant capital treatment to those positions. Marking to current market price shall be at least once a day at readily available close out prices of positions that are sourced independently. Examples include exchange prices.
- (5) When marking to market, a bank shall use the more prudent side of bid and offer unless the bank can close out at mid-market. Where banks make use of this derogation, they shall every six months inform the Agency of the positions concerned and furnish evidence (i.e. bills of sale) that they can close out at mid-market.
- (6) Where marking to market is not possible, bank shall conservatively mark to internal valuation methodology their positions and portfolios, including when calculating own funds requirements for positions in the trading book and positions measured at fair value in the non-trading book.
- (7) Bank shall comply with the following requirements when apply internal valuation methodology:
 - a) senior management shall be aware of the elements of the trading book or of other fair-valued positions which are subject to internal valuation methodology and shall understand the materiality of the uncertainty thereby created in the reporting of the risk/performance of the business;
 - b) bank shall source market inputs, where possible, in line with market prices, and shall assess the appropriateness of the market inputs of the particular position being valued and the parameters of the internal valuation methodology;
 - c) where available, bank shall use valuation methodologies which are accepted market practice for particular financial instruments or commodities;
 - d) where the internal methodology is developed by the bank itself, it shall be based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the internal methodology development process. An

- internal valuation methodology shall be developed or approved independently of the trading desk and shall be independently tested, including validation of the mathematics, assumptions and software implementations;
- e) bank shall have in place formal change control procedures and shall hold a secure copy of the internal valuation methodology and use it periodically to check valuations;
 - f) in risk management a bank shall take a measures to remedy identified weaknesses of the internal valuation methodology and be aware on how best to reflect those in the valuation output;
 - g) internal valuation methodologies shall be subject to periodic review to determine the accuracy of their performance, which shall include assessing the continued appropriateness of assumptions, analysis of profit and loss versus risk factors, and comparison of actual close out values to outputs of the internal valuation methodology.
- (8) Bank shall perform independent price verification in addition to daily marking to market or internal valuation methodology. Verification of market prices and model inputs for the internal valuation methodology shall be performed by a person or unit independent from persons or units that benefit from the trading book, at least monthly, or more frequently depending on the nature of the market or trading activity. Where independent pricing sources are not available or pricing sources are more subjective, prudent measures such as valuation adjustments may be appropriate.
- (9) Bank shall establish and maintain procedures for considering valuation adjustments.
- (10) When using third party valuations or internal valuation methodology, bank shall consider whether to apply a valuation adjustment. In addition, bank shall consider the need to establish adjustments for less liquid positions and on an ongoing basis review their continued suitability. Bank shall also explicitly assess the need for valuation adjustments relating to the uncertainty of parameter inputs used by internal valuation methodology, where an assessment of the need for valuation adjustments in internal methodology bank shall adequately and reliably document to the Agency.

Article 118 **Internal Hedges**

- (1) An internal hedge shall in particular meet the following requirements:
- a) it shall not be primarily intended to avoid or reduce own funds requirements;
 - b) it shall be properly documented and subject to particular internal approval and audit procedures;
 - c) it shall be dealt with at market conditions;
 - d) the market risk that is generated by the internal hedge shall be dynamically managed in the trading book within the authorised limits;
 - e) it shall be carefully monitored in accordance with relevant procedures set out by internal acts of a bank.
- (2) The requirements of paragraph (1) of this Article shall apply without prejudice to the requirements applicable to the hedged position in the banking book.
- (3) The subject of internal hedges are only instruments which value can be determined at recognised market.

Article 119 **Own funds requirements for market risk**

- (1) A bank shall calculate the own funds requirements for market risk of all trading book positions and non-trading book positions, that are subject to foreign exchange risk or commodity risk in accordance with the standardised approach, by summing the own funds requirements for:

- a) position risk in accordance with the part of this Decision relating to own funds requirements for position risk;
 - b) foreign exchange risk in accordance with the part of this Decision relating to own funds requirements for foreign exchange risk;
 - c) commodity risk in accordance with part of this Decision relating to own funds requirements for commodity risk.
- (2) The Agency may subsequently prescribe additional requirements in terms of an approach for the calculation of own funds requirements for market risk and reporting thereon, depending on the justification of the introduction of such requirements.

OWN FUNDS REQUIREMENTS FOR POSITION RISK

Article 120

Own funds requirements for position risk

Bank's own funds requirement for position risk shall be the sum of the own funds requirements for the general and specific risk of its positions in debt and equity instruments.

Article 121

Specific and general risks

- (1) Position risk on a traded debt instrument or equity instrument or derivative thereof may be divided into two components for purposes of calculation of own funds requirements for specific and general risk.
- (2) Specific risk relates to the risk of a price change in the instrument concerned due to factors related to its issuer or, in the case of a derivative, the issuer of the underlying instrument.
- (3) The general risk relates to the risk of a price change in the instrument due in the case of a traded debt instrument or debt derivative to a change in the level of interest rates or in the case of an equity or equity derivative to a broad equity-market movement unrelated to any specific attributes of individual securities.

Article 122

Netting

- (1) The absolute value of the excess of a bank's long (short) positions over its short (long) positions in the same equity, debt and convertible issues and identical financial futures, options, warrants and covered warrants shall be its net position in each of those different instruments. In calculating the net position, positions in financial derivative instruments shall be treated as laid down in Articles 124 to 126 of this Decision. Bank's holdings of their own debt instruments shall be disregarded in calculating specific risk capital requirements under Article 129 of this Decision.
For the purpose of netting of positions, the identical instruments shall be the instruments having the same issuer, the same interest rate, the same maturity, denominated in the same currency and have the same legal position in a case of bankruptcy procedure.
- (2) All net positions, irrespective of their signs, shall be converted on a daily basis into the bank's reporting currency at the prevailing spot exchange rate of the CBBiH.

Article 123

General rules to broken down positions of individual instruments

Positions of individual instruments under Articles 124 to 126 of this Decision, shall be broken down to underlying positions as follows:

- a) where an underlying financial instrument is debt instrument:
 - 1) to the debt instrument, where the price (interest rate) of individual instrument depends on the specifically defined basic debt instrument to which it relates, and/or

- 2) to the hypothetical instrument (reflects the general position risk – non-specific position risk) which covers interest rate risk resulting from future payments and receipts of cash flows (including the hypothetical payments and receipts);
 - 3) to the debt instruments and hypothetical debt instruments together;
- b) where an underlying instrument is the equity instrument, to the hypothetical positions in the individual equity instruments, baskets of equity instruments, or indices of equity instruments;
 - c) where an underlying instrument are commodities, to the hypothetical positions in commodities to which they relate.

Article 124

Interest rate futures and forwards

- (1) Interest-rate futures, forward-rate agreements (FRAs) and forward commitments to buy or sell debt instruments shall be treated as combinations of long and short positions. Thus a long interest-rate futures position shall be treated as a combination of a borrowing maturing on the delivery date of the futures contract and a holding of an asset with maturity date equal to that of the instrument or notional position underlying the futures contract in question. Similarly a sold FRA will be treated as a long position with a maturity date equal to the settlement date plus the contract period, and a short position with maturity equal to the settlement date. Both the borrowing and the asset holding shall be included in the first category set out in Table 18 in Article 129 of this Decision in order to calculate the own funds requirement for specific risk for interest-rate futures and FRAs. A forward commitment to buy a debt instrument shall be treated as a combination of a borrowing maturing on the delivery date and a long (spot) position in the debt instrument itself. The borrowing shall be included in the first category set out in Table 18 in Article 129 of this Decision for purposes of specific risk, and the debt instrument under whichever column is appropriate for it in the same table.
- (2) For the purposes of this Article, 'long position' means a position in which a bank has fixed the interest rate it will receive at some time in the future, and 'short position' means a position in which it has fixed the interest rate it will pay at some time in the future.

Article 125

Options and warrants

For the purpose of this Chapter of the Decision, options and warrants on interest rates, debt instruments, equities, equity indices, financial futures, swaps and foreign currencies shall be treated as if they were positions equal in value to the amount of the underlying instrument to which the option refers, multiplied by its delta. For subject positions, netting can be done with all opposite positions of equivalent underlying securities or derivatives. For options and warrants traded at stock exchanges, banks shall apply delta of the exchange concerned. Where delta is not available from the exchange concerned, the bank may calculate delta itself using an internal methodology for determining value, with a prior permission from the Agency. Permission shall be granted if the internal methodology for determining value appropriately estimates the rate of change of the option's or warrant's value with respect to small changes in the market price of the underlying instrument.

Article 126

Swaps

Swaps shall be treated for interest-rate risk purposes on the same basis as on-balance-sheet instruments. Thus, an interest-rate swap under which bank receives floating-rate interest and pays fixed-rate interest shall be treated as equivalent to a long position in a floating-rate

instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed-rate instrument with the same maturity as the swap itself.

Article 127

Securities sold under a repurchase agreement or lent

The transferor of securities or guaranteed rights relating to title to securities in a repurchase agreement and the lender of securities in a securities lending shall include these securities in the calculation of its own funds requirement provided that such securities are trading book positions.

Article 128

Net positions in debt instruments

Bank shall classify net positions in debt instruments according to the currency in which they are denominated and shall calculate the own funds requirement for general and specific risk in each individual currency separately.

SPECIFIC RISK

Article 129

Own funds requirement for debt instruments

(1) The bank shall assign its net positions in the trading book in instruments, as calculated in accordance with Article 122 of this Decision to the appropriate categories in table 18 on the basis of their issuer or obligor, external or internal credit assessment, and residual maturity, and then multiply them by the weightings shown in that table.

The bank shall sum its weighted positions resulting from the application of this Article regardless of whether they are long or short in order to calculate its own funds requirement against specific risk.

The categories of debt securities and assigned risk weights to calculate own funds requirement for debt instruments specific risk are given in the table 18:

Table 18

Categories	Specific risk own funds requirement
Debt securities which would receive a 0 % risk weight under the Standardised Approach for credit risk.	0 %
Debt securities which would receive a 20 % or 50 % risk weight under the Standardised Approach for credit risk and other qualifying items as defined in paragraph (4) of this Article.	0,25 % (residual term to final maturity six months or less) 1,00 % (residual term to final maturity greater than six months and up to and including 24 months) 1,60 % (residual term to maturity exceeding 24 months)
Debt securities which would receive a 100 % risk weight under the Standardised Approach for credit risk.	8,00 %
Debt which would receive a 150 % risk weight under the Standardised Approach for credit risk.	12,00 %

(2) Bank shall calculate the specific risk requirements for any bonds that qualify for a 10 % risk weight in accordance with the treatment set out in Article 67, paragraphs (3) and (4) of this Decision as half of the applicable specific risk own funds requirement for the second category in table 18.

- (3) Bank shall use the maximum risk weighting shown in table 18 in paragraph (1) of this Article, i.e. 12% for debt instruments that show a particular risk because of the insufficient solvency of the issuer or liquidity of the instrument itself.
- (4) Other qualifying items are:
- a) long and short positions in assets for which a credit assessment by a nominated ECAI is not available and which meet all of the following conditions:
 - 1) the bank concerned consider them to be sufficiently liquid
 - 2) their investment quality is, according to the bank's own discretion, at least equivalent to investment quality of the assets referred to under table 18 in paragraph (1) of this Article;
 - 3) they are listed on at least one regulated market in an EU Member State, BiH or on a stock exchange in a third country, provided that the stock exchange is recognised by the competent authorities of the relevant Member State or at the recognised stock exchange listed in Annex III of this Decision;
 - b) long and short positions in assets issued by banks subject to the own funds requirements set out in this Decision which are considered by the bank concerned to be sufficiently liquid and whose investment quality is, according to the bank's own discretion, at least equivalent to that of the assets referred to under table 18 paragraph (1) of this Article;
 - c) securities issued by bank that are deemed to be of equivalent, or higher, credit quality than those associated with credit quality step 2 under the Standardised Approach for credit risk of exposures to institutions and that are subject to supervisory and regulatory arrangements applicable in BiH or EU:

Bank that makes use of point a) or b) shall have a documented methodology in place to assess whether assets meet the requirements in those points and shall notify this methodology to the Agency.

Article 130 **General risk**

- (1) The bank may use an approach to calculate own funds requirements for general risk which is either maturity-base (in accordance to Article 131 of this Decision), or duration-based (in accordance to Article 132 of this Decision).
- (2) The selected approach a bank shall apply consistently.

Article 131 **Maturity-based calculation of general risk**

- (1) In order to calculate own funds requirements against general risk all positions shall be weighted according to maturity as explained in paragraph (2) of this Article in order to compute the amount of own funds required against them. This requirement shall be reduced when a weighted position is held alongside an opposite weighted position within the same maturity band. A reduction in the requirement shall also be made when the opposite weighted positions fall into different maturity bands, with the size of this reduction depending both on whether the two positions fall into the same zone, or not, and on the particular zones they fall into.
- (2) The bank shall assign its net positions to the appropriate maturity bands in column 2 or 3, as appropriate, in Table 19 in paragraph (4) of this Article. It shall do so on the basis of residual maturity in the case of fixed-rate instruments and on the basis of the period until the interest rate is next set in the case of instruments on which the interest rate is variable before final maturity. The bank shall also distinguish between debt instruments with a coupon of 3 % or more and those with a coupon of less than 3 % and thus allocate them to column 2 or column 3 in Table 19 in paragraph (4) of this Article.

- (3) In each maturity band the bank shall work out the sum of the weighted long positions and separately the sum of the weighted short positions. The amount of weighted long positions matched with the sum of the weighted short positions in each maturity band shall be the matched weighted position in that band, while the residual long or short position shall be the unmatched weighted position for the same band. The total of the matched weighted positions in all bands shall then be calculated.
- (4) Bank shall compute the totals of the unmatched weighted long positions for the bands included in each of the zones in table 19 of this Article in order to derive the unmatched weighted long position for each zone. Similarly, the sum of the unmatched weighted short positions for each band in a particular zone shall be summed to compute the unmatched weighted short position for that zone. That part of the unmatched weighted long position for a given zone that is matched by the unmatched weighted short position for the same zone shall be the matched weighted position for that zone. That part of the unmatched weighted long or unmatched weighted short position for a zone that cannot be thus matched shall be the unmatched weighted position for that zone.

Table 19

Zone	Maturity band		Weighting (in %)	Assumed interest rate change (in %)
	Coupon of 3 % or more	Coupon of less than 3 %		
One	0 ≤ 1 month	0 ≤ 1 month	0,00	—
	> 1 ≤ 3 months	> 1 ≤ 3 months	0,20	1,00
	> 3 ≤ 6 months	> 3 ≤ 6 months	0,40	1,00
	> 6 ≤ 12 months	> 6 ≤ 12 months	0,70	1,00
Two	> 1 ≤ 2 years	> 1,0 ≤ 1,9 years	1,25	0,90
	> 2 ≤ 3 years	> 1,9 ≤ 2,8 years	1,75	0,80
	> 3 ≤ 4 years	> 2,8 ≤ 3,6 years	2,25	0,75
Three	> 4 ≤ 5 years	> 3,6 ≤ 4,3 years	2,75	0,75
	> 5 ≤ 7 years	> 4,3 ≤ 5,7 years	3,25	0,70
	> 7 ≤ 10 years	> 5,7 ≤ 7,3 years	3,75	0,65
	> 10 ≤ 15 years	> 7,3 ≤ 9,3 years	4,50	0,60
	> 15 ≤ 20 years	> 9,3 ≤ 10,6 years	5,25	0,60
	> 20 years	> 10,6 ≤ 12,0 years	6,00	0,60
		> 12,0 ≤ 20,0 years	8,00	0,60
		> 20 years	12,50	0,60

- (5) The amount of the unmatched weighted long or short position for a zone one which is matched by the unmatched weighted short or long position in zone two shall be the matched weighted position between zones one and two. The same calculation shall be applied to the that part of the unmatched weighted position in zone two which is left over and the unmatched weighted position in the zone three, in order to calculate the matched weighted position between zones two and three.
- (6) Bank may reverse the order in paragraph (5) of this Article so as to calculate the matched weighted position between zones two and three before calculating that position between zones one and two.
- (7) The remainder of the unmatched weighted position in zone one shall then be matched with what remains of that for zone three after the latter's matching with zone two in order to derive the matched weighted position between zones one and three.

- (8) Following the three separate matching calculations in paragraphs (5), (6) and (7) of this Article, residual positions shall be summed.
- (9) Bank's own funds requirement shall be calculated as the sum of:
- 10 % of the sum of the matched weighted positions in all maturity bands;
 - 40 % of the matched weighted position in zone one;
 - 30 % of the matched weighted position in zone two;
 - 30 % of the matched weighted position in zone three;
 - 40 % of the matched weighted position between zones one and two and between zones two and three;
 - 150 % of the matched weighted position between zones one and three;
 - 100 % of the residual unmatched weighted positions.

Article 132

Duration-based calculation of general risk

- Banks use an approach for calculating the own funds requirement for the general risk on debt instruments which reflects duration, instead of the approach set out in Article 131 of this Decision, provided that the bank does so on a consistent basis.
- Under the duration-based approach referred to in paragraph (1) of this Article, the bank shall take the market value of each fixed-rate debt instrument and hence calculate its yield to maturity, which is implied discount rate for that instrument. In the case of floating-rate instruments, the bank shall take the market value of each instrument and hence calculate its yield on the assumption that the principal is due when the interest rate can next be changed.
- Bank shall then calculate the modified duration of each debt instrument on the basis of the following formula:

$$\text{modified duration} = \frac{D}{1 + R}$$

where:

duration calculated according to the following formula:

$$D = \frac{\sum_{t=1}^M \frac{t \cdot C_t}{(1 + R)^t}}{\sum_{t=1}^M \frac{C_t}{(1 + R)^t}}$$

Where:

R = yield to maturity;

C_t = cash payment in time t;

M = total maturity.

- Bank shall then allocate each debt instrument to the appropriate zone in table 20. It shall do so on the basis of the modified duration of each instrument.

Table 20

Zone	Modified duration (in years)	Assumed interest (change in %)
One	> 0 ≤ 1,0	1,0
Two	> 1,0 ≤ 3,6	0,85
Three	> 3,6	0,7

- Bank shall then calculate the duration-weighted position for each instrument by multiplying its market price by its modified duration and by the assumed interest-rate change for an instrument with that particular modified duration (see column 3 in table 20, paragraph (4) of this Article).

- (6) Bank shall calculate its duration-weighted long and its duration-weighted short positions within each zone. The amount of the duration-weighted long which are matched with the duration-weighted short positions in the same zone shall be the matched duration-weighted position for that zone.

The bank shall then calculate the unmatched duration-weighted positions for each zone. It shall then follow the procedures laid down for unmatched weighted positions in Article 131, paragraphs (5) to (8) of this Decision.

- (7) The bank's own funds requirement shall be calculated as the sum of the following:
- a) 2 % of the matched duration-weighted position for each zone;
 - b) 40 % of the matched duration-weighted positions between zones one and two and between zones two and three;
 - c) 150 % of the matched duration-weighted position between zones one and three;
 - d) 100 % of the residual unmatched duration-weighted positions.

Article 133

Net positions in equity instruments

- (1) The bank shall separately sum all its net long positions and all its net short positions in accordance with Article 122 of this Decision. The sum of the absolute values of net long positions and net short positions shall be the bank's overall gross position.
- (2) The bank shall calculate, separately for each market, the difference between the sum of the net long and the net short positions. The sum of the absolute values of those differences shall be its overall net position.
- (3) Positions in some equity instrument shall be presented in its market value.
- (4) Financial derivatives shall be classified by countries where the equity securities subject to an agreement are listed and/or markets where the equity securities are traded.

Article 134

Specific risk of equity instruments

The own funds requirement against specific risk of the bank shall be calculated by multiplying its overall gross position by 12%.

Article 135

General risk of equity instruments

The own funds requirement against general risk shall be the bank's overall net position multiplied by 12%.

Article 136

Stock indices

- (1) Stock-index futures, the delta-weighted equivalents of options in stock-index futures and stock indices collectively referred to hereafter as 'stock-index futures', may be broken down into positions in each of their constituent equities.
- (2) Where a stock-index future is not broken down into its underlying positions, it shall be treated as if it were an individual equity. However, the specific risk on this individual equity can be ignored if the stock-index future in question is exchange traded and represents a relevant appropriately diversified index.

Article 137

Underwriting

- (1) Bank shall, in the case of the underwriting, to use the following procedure in calculating its own funds requirements. The bank shall first calculate the net positions by deducting the

underwriting positions which are subscribed or sub-underwritten by third parties on the basis of formal agreements. Then it shall reduce the net positions by the reduction factors in table 21 of this paragraph and calculate its own funds requirements using the reduced underwriting positions. Table 21 shows the reduction factors:

Table 21

working day 0:	100 %
working day 1:	90 %
working days 2 to 3:	75 %
working day 4:	50 %
working day 5:	25 %
after working day 5:	0 %.

'Working day zero' shall be the working day on which the bank becomes unconditionally committed to accepting a known quantity of securities at an agreed price.

- (2) The bank shall ensure at all time a sufficient own funds to cover risk losses which could occur in the period of the initial undertaking and working day 1.
- (3) Bank shall notify to the Agency the use they make of paragraph (1) of this Article.

Article 138

Own funds requirement for positions in an investment fund

- (1) Positions in an investment fund are subject to own funds requirement for position risk, comprising specific and general risk of 32%. Without prejudice to Article 143 taken together with the amended gold treatment set out in Article 142, paragraph (4), positions in investment fund shall be subject to an own funds requirement for position risk, comprising specific and general risk, and foreign-exchange risk of 40%.
- (2) Unless noted otherwise in Article 140 of this Decision, no netting is permitted between the underlying investments of an investment fund and other positions held by the bank.

Article 139

General criteria for investment fund

- (1) Investment fund shall be eligible for the approach set out in Article 140 of this Decision, where all the following conditions are met:
 - a) investment fund has a prospectus or equivalent document which include all of the following:
 - 1) the categories of assets the investment fund is authorised to invest in;
 - 2) where investment limits apply, the relative limits and the methodologies to calculate them;
 - 3) where investment, concluding financial derivatives transactions or repurchase transactions or securities borrowing or lending is allowed, a policy to limit counterparty risk arising from these transactions;
 - b) the business result of the investment fund shall be reported in half-yearly and annual reports to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period;
 - c) the shares or units of the investment fund are redeemable in cash, out of the undertaking's assets, on a daily basis at the request of the unit holder;
 - d) investments in the investment fund shall be segregated from the assets of the investment fund managing company;
 - e) there shall be adequate risk assessment of the investment fund, by the investing bank;
 - f) the investment fund shall be managed by persons subject to supervision of the competent regulatory authorities in BiH and EU.

- (2) Methods under Article 140 of this Decision can be used to calculate own funds requirements for positions of an investment funds from recognised third countries, provided that meet conditions under paragraph (1) points a) to f) of this Article and if eligible to the satisfaction of the Agency.

Article 140

Specific methods for investment fund

- (1) Where the bank is aware of the underlying investments of the investment fund on a daily basis, the bank may look through to those underlying investments in order to calculate the own funds requirements for position risk, comprising specific and general risk. Under such an approach, positions in investment fund shall be treated as positions in the underlying investments of the investment fund.
- (2) Bank shall calculate the own funds requirements for position risk, comprising specific and general risk, for positions in investment fund by assuming positions representing those necessary to replicate the composition and performance of the externally generated index or fixed basket of equities or debt securities referred to in point (a), subject to the following conditions:
- a) the purpose of the investment fund mandate is to replicate the composition and performance of an externally generated index or fixed basket of equities or debt securities;
 - b) a minimum correlation coefficient between daily returns on the investment fund and the index or basket of equities or debt securities it tracks of 0,9 can be clearly established over a minimum period of six months;
- (3) Where the bank is not aware of the underlying investments of the investment fund on a daily basis, it may calculate the own funds requirements for position risk, comprising specific and general risk, under the following conditions:
- a) it will be assumed that the investment fund first invests to the maximum extent allowed under its mandate in the asset classes attracting the highest own funds requirement for specific and general risk separately, and then continues making investments in descending order until the maximum total investment limit is reached. The position in the investment fund will be treated as a direct holding in the assumed position;
 - b) if the own funds requirement for specific and general risk together in accordance with this paragraph exceed that set out in Article 138, paragraph (1) of this Decision, the own funds requirement shall be capped at that level.
- (4) Bank may rely, to calculate and report own funds requirements for position risk for positions in investment fund falling under paragraphs (1) to (3) of this Article, in accordance with the methods set out in this Article, rely on:
- a) the depository of the investment fund provided that the investment fund exclusively invests in securities and deposits all securities at this depository.
 - b) for investment funds not covered by point a) of this paragraph, an investment fund management company, provided that the investment fund management company meets the criteria set out in Article 69, paragraph (2) point a) of this Decision.

The correctness of the calculation shall be confirmed by an external auditor.

OWN FUNDS REQUIREMENTS FOR FOREIGN-EXCHANGE RISK

Article 141

De minimis and weighting for foreign exchange risk

- (1) If the sum of a bank's overall net foreign-exchange position and its net gold position, calculated in accordance with Article 142 of this Decision, exceeds 2 % of its total own funds, the bank shall calculate an own funds requirement for foreign exchange risk.

- (2) The own funds requirement for foreign exchange risk shall be the sum of its overall net foreign-exchange position and its net gold position multiplied by 12 %.

Article 142

Calculation of the overall net foreign exchange position

- (1) The bank's net open position in each currency, including the reporting currency, without calculation of own funds requirements for reporting currency, and net open position in gold shall be calculated as the sum of the following elements (positive or negative):
- a) the net spot position (i.e. all asset items less all liability items, including accrued interest, in the currency in question) and net spot position in gold;
 - b) the net forward position, which are all amounts to be received less all amounts to be paid under forward exchange and gold transactions, including currency and gold futures and the principal on currency swaps not included in the spot position;
 - c) irrevocable guarantees and similar instruments that are certain to be called and likely to be irrecoverable;
 - d) the net delta, or delta-based, equivalent of the total book of foreign-currency and gold options.

The net delta equivalent shall be calculated by multiplying the amount of underlying instrument and corresponding delta. For options traded on the stock exchange, bank apply delta of the exchange concerned. Where such delta is not available from the exchange concerned, the bank may apply delta calculated in accordance to internal methodology, subject to permission by the Agency. Permission shall be granted if the internal valuation methodology appropriately estimates the rate of change of the option's or warrant's value with respect to small changes in the market price of the underlying instruments.

- e) the market value of other options, which are non-foreign-currency and non-gold options, whose underlying instrument is expressed in foreign currency. The bank may include into net open position in some currency or net open position in gold, a net future income/expenses not yet accrued but already fully hedged (i.e. foreign exchange forward contracts or similar) if it does so consistently in accordance with the international accounting standards.
- (2) When calculating a net open currency position, with a prior permission from the Agency, a bank may exclude positions taken in order to hedge against the adverse effect of the exchange rate on its ratios referred to in Article 38, paragraph (1) of this Decision. Such positions shall be of a nontrading and any variation of the terms of their exclusion is subject to separate permission by the Agency. Bank shall regulate types and characteristics of instruments use only for these purposes. The same treatment subject to the same conditions may be applied to positions which a bank has which relate to items that are already deducted in the calculation of own funds.
- (3) When calculating a net open currency position in each currency and gold, a bank may consistently use the net present value. When calculating a net open currency position, the bank shall reduce on- and off- balance sheet asset items for related expected credit losses and provisions for contingent liabilities.
- (4) Open foreign exchange position in some currency may be long or short. The bank has a long position in some currency (or gold) when the sum of items listed in paragraph (1) of this Article is positive, and the short position when the sum is negative. The open net short or net long position in some foreign currency shall be converted into BAM using a middle rate of the CBBH.

Then, a bank calculates the overall open net long position as a sum of all open net long positions in individual currencies, and overall open net short position as a sum of all open

net short positions in individual currencies. The higher amount is the overall net currency positions of a bank to be used for the purpose of own funds requirements for foreign exchange risk in accordance with Article 141, paragraph (2) of this Decision.

Article 143

Foreign-exchange risk for positions in investment fund

- (1) For the purpose of Article 142 of this Decision, a bank shall treat shares in an investment fund in accordance with the actual currency structure of investments of the investment fund and include that currency positions into calculation of net open currency positions in the relevant foreign currency.
- (2) A bank may rely on the following third parties' reporting of the foreign exchange positions in the investment funds:
 - a) the depository bank of a specific investment fund, provided that the investment fund exclusively invests in securities and deposits all securities at this depository,
 - b) for other investment funds, an investment fund management company, provided that the investment fund management company meets the criteria set out in Article 69, paragraph (2) point a) of this Decision.

The correctness of the reports shall be confirmed by an external auditor.

- (3) Where a bank is not aware of the foreign exchange positions in an investment fund, it shall be assumed that the investment fund is invested up to the maximum extent allowed. Where the bank's investments to the investment fund are booked in the trading book, bank shall take in account the maximum exposure that could achieve from investments in the investment fund, by proportionally increasing the assumed investment in the investment fund up to the maximum exposure to the underlying investment in accordance to the investment policy of the investment fund.

The open foreign exchange position of a bank in the assumed investment of the investment fund is equal to the sum of the absolute values of underlying assumed investments of that investment fund. The open foreign exchange position of a bank in the assumed investment of the investment fund shall be included when calculating the overall foreign exchange position in accordance to the treatment of investments in gold. Notwithstanding, Where the direction of the assumed investment is available, banks may treat units in investment funds as long or short foreign exchange positions in assumed investments, where netting of those positions is not allowed.

The assumed position of the CIU in foreign exchange shall be treated as a separate currency according to the treatment of investments in gold, subject to the addition of the total long position to the total long open foreign exchange position and the total short position to the total short open foreign exchange position.

An open long or short foreign exchange position (the assumed investment of an investment fund) shall be treated as the assumed investment of an investment fund and shall be added to the total long or total short open foreign exchange position of a bank.

OWN FUNDS REQUIREMENTS FOR COMMODITIES RISK

Article 144

Choice of method for commodities risk

Subject to Articles 145 and 146 of this Decision, bank shall calculate the own funds requirement for commodities risk with one of the following methods:

- a) Simplified approach;
- b) Maturity ladder approach.

Article 145

Positions in commodities

- (1) Each position in commodities or commodity derivatives shall be expressed in terms of the standard unit of measurement. The spot price in each commodity shall be expressed in the reporting currency.
- (2) Positions in gold or gold derivatives shall be considered as being subject to foreign-exchange risk and treated in accordance with own funds requirements for foreign-exchange risk, as appropriate, for the purpose of calculating commodities risk.
- (3) For the purpose of Article 147, paragraph (1) of this Decision, the excess of a bank's long positions over its short positions, or vice versa, in the same commodity and identical commodity futures, options and warrants shall be its net position in each commodity. Financial derivative instruments shall be treated, as laid down in Article 146 of this Decision, as positions in the underlying commodity.
- (4) For the purposes of calculating a position in a commodity, the following positions shall be treated as positions in the same commodity:
 - a) positions in different sub-categories of commodities in cases where the sub-categories are deliverable against each other;
 - b) positions in similar commodities if they are close substitutes and where a minimum correlation of 0,9 between price movements can be clearly established over a minimum period of one year.

Article 146

Particular instruments

- (1) Commodity futures and forward commitments to buy or sell individual commodities shall be incorporated in the measurement system as notional amounts in terms of the standard unit of measurement and assigned a maturity with reference to expiry date.
- (2) Commodity swaps where one side of the transaction is a fixed price and the other the current market price shall be treated, as a series of positions equal to the notional amount of the contract, with, where relevant, one position corresponding with each payment on the swap and slotted into the maturity bands in Article 148, paragraph (1) of this Decision. The positions shall be long positions if the bank is paying a fixed price and receiving a floating price and short positions if the bank is receiving a fixed price and paying a floating price. Commodity swaps where the sides of the transaction are in different commodities are to be reported in the relevant reporting ladder for the maturity ladder approach.
- (3) For the purpose of this Chapter options and warrants on commodities or on commodity derivatives shall be treated as if they were positions equal in value to the amount of the underlying to which the option refers, multiplied by its delta. The latter positions may be netted off against any offsetting positions in the identical underlying commodity or commodity derivative. The delta used shall be that of the exchange concerned. Where delta is not available from the exchange concerned the bank may calculate delta itself using an appropriate model, subject to permission by the Agency. Permission shall be granted if the model appropriately estimates the rate of change of the option's or warrant's value with respect to small changes in the market price of the underlying.
- (4) Bank shall include the commodities concerned in the calculation of its own funds requirement for commodities risk where it is either of the following:
 - a) the transferor of commodities or guaranteed rights relating to title to commodities in a repurchase agreement
 - b) the lender of commodities in a commodities lending agreement.

Article 147
Simplified approach

- (1) The bank's own funds requirement for each commodity shall be calculated as the sum of the following:
 - a) 15% of the net position, long or short, multiplied by the spot price for the commodity;
 - b) 3% of the gross position, long plus short, multiplied by the spot price for the commodity.
- (2) The bank's overall own funds requirement for commodities risk shall be calculated as the sum of the own funds requirements calculated for each commodity in accordance with paragraph (1) of this Article.

Article 148
Maturity ladder approach

- (1) The bank shall use a separate maturity ladder in line with table 22 for each commodity. All positions in that commodity shall be assigned to the appropriate maturity bands. Physical stocks shall be assigned to the first maturity band between 0 and 1 month including 1 month.

Table 22

Maturity band (1)	Spread rate (in %) (2)
$0 \leq 1$ month	1,50
$> 1 \leq 3$ months	1,50
$> 3 \leq 6$ months	1,50
$> 6 \leq 12$ months	1,50
$> 1 \leq 2$ years	1,50
$> 2 \leq 3$ years	1,50
> 3 years	1,50

- (2) Positions in the same commodity may be offset and assigned to the appropriate maturity bands on a net basis for the following:
 - a) positions in contracts maturing on the same date;
 - b) positions in contracts maturing within 10 days of each other if the contracts are traded on markets which have daily delivery dates.
- (3) The bank shall then calculate the sum of the long positions and the sum of the short positions in each maturity band. The amount of the former which are matched by the latter in a given maturity band shall be the matched positions in that band, while the residual long or short position shall be the unmatched position for the same band.
- (4) That part of the unmatched long position for a given maturity band that is matched by the unmatched short position, or vice versa, for a maturity band further out shall be the matched position between two maturity bands. That part of the unmatched long or unmatched short position that cannot be thus matched shall be the unmatched position.
- (5) Bank's own funds requirement for each commodity shall be calculated on the basis of the relevant maturity ladder as the sum of the following:
 - a) the sum of the matched long and short positions, multiplied by the appropriate spread rate as indicated in the second column of table 22 in paragraph (1) of this Article for each maturity band and by the spot price for the commodity;
 - b) the matched position between two maturity bands for each maturity band into which an unmatched position is carried forward, multiplied by 0,6 %, which is the carry rate and by the spot price for the commodity;
 - c) the residual unmatched positions, multiplied by 15 % which is the outright rate and by the spot price for the commodity.

- (6) Bank's overall own funds requirement for commodities risk shall be calculated as the sum of the own funds requirements calculated for each commodity in accordance with paragraph (5) of this Article.

IX TRANSITIONAL AND FINAL PROVISIONS

Article 149

- (1) Bank obligations related to reporting on capital and capital requirements for credit, market and operational risk, leverage rate and capital buffers and other necessary according to the information prescribed by this Decision, the Agency shall determine a special bylaw regulation, which will specify in more detail uniform forms for reporting, frequency and reporting dates.
- (2) For Annexes III and IV of this Decision, the Agency shall publish websites that represent a relevant source to the bank for downloading the data contained in these annexes. The bank is obliged to subsequently monitor the sources in question and make updates in accordance with the corresponding amendments.
- (3) The bank is obliged to carry out, for Common Equity Tier 1, Additional Tier 1 and Tier 2 capital instruments, a verification of the fulfilment of the conditions of inclusion in the calculation of Tier 1 capital referred to in this Decision until the application of this Decision.
- (4) For the purpose of applying Article 10, paragraph (2) of this Decision, the Director of the Agency shall, within 60 days of on the date of entry into force of this Decision, make the appropriate instructions to this Decision.
- (5) The bank is obliged to comply with the provisions of this Decision on the financial date 30.06.2024.
- (6) With the entry into force of this Decision, the Decision on calculating the bank's capital ceases to apply ("Official Gazette of the Federation of BiH", No. 81/17, 50/19, 37/20 and 81/20).

Article 150

Entry into force

This Decision shall enter into force on the eighth day following its publication in the Official Gazette of the Federation of BiH, which shall be applied starting from June 30th, 2024.

Number: U.O.-17-02/23
Sarajevo, December 15th, 2023

CHAIRWOMAN
OF THE MANAGEMENT BOARD
Ivanka Galic, B.Sc. in Economics, sgd

ANNEX I - CLASSIFICATION OF OFF-BALANCE SHEET ITEMS

1. **Full risk:**

- a) guarantees having the character of credit substitutes, (e.g. guarantees for the good payment of credit facilities);
- b) acceptances;
- c) endorsements on bills not bearing the name of another institution or investment firm;
- d) transactions with recourse (e.g. factoring, invoice discount facilities);
- e) irrevocable standby letters of credit having the character of credit substitutes;
- f) assets purchased under outright forward purchase agreements;
- g) forward deposits;
- h) asset sale and repurchase agreements;

2. **Medium risk:**

- a) trade finance off-balance sheet items, namely documentary credits issued or confirmed (see also 'Medium/low risk');
- b) other off-balance sheet items:
 - 1) shipping guarantees, customs and tax bonds;
 - 2) undrawn credit facilities (agreements to lend, purchase securities, provide guarantees or acceptance facilities) with an original maturity of more than one year;
 - 3) note issuance facilities (NIFs) and revolving underwriting facilities (RUFs);

3. **Medium/low risk:**

- a) trade finance off-balance sheet items:
 - 1) documentary credits in which underlying shipment acts as collateral and other self-liquidating transactions;
 - 2) warranties (including tender and performance bonds and associated advance payment and retention guarantees) and guarantees not having the character of credit substitutes;
 - 3) irrevocable standby letters of credit not having the character of credit substitutes;
- b) other off-balance sheet items: undrawn credit facilities which comprise agreements to lend, purchase securities, provide guarantees or acceptance facilities with an original maturity of up to and including one year which may not be cancelled unconditionally at any time without notice or that do not effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness;

4. **Low risk:**

- a) undrawn credit facilities comprising agreements to lend, purchase securities, provide guarantees or acceptance facilities which may be cancelled unconditionally at any time without notice, or that do effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness.
- b) undrawn credit facilities for tender and performance guarantees which may be cancelled unconditionally at any time without notice, or that do effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness.

ANNEX II - TYPES OF FINANCIAL DERIVATIVES

I. Financial derivatives:

1. Interest-rate contracts:

- a) single-currency interest rate swaps;
- b) basis-swaps;
- c) forward rate agreements;
- d) interest-rate futures;
- e) interest-rate options;
- f) other contracts of similar nature.

2. Foreign-exchange contracts and contracts concerning gold:

- a) cross-currency interest-rate swaps;
- b) forward foreign-exchange contracts;
- c) currency futures;
- d) currency options;
- e) other contracts of a similar nature;
- f) contracts of a nature similar to a) to e) concerning gold.

3. Options, futures, swaps, forward rate agreements and any other financial derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other financial derivatives instruments, financial indices or financial measures which may be settled physically or in cash;

4. Options, futures, swaps, forwards and any other financial derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event;

5. Options, futures, swaps, and any other financial derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market;

6. Options, futures, swaps, forwards and any other financial derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in previous point and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, or an MTF;

7. Financial contracts for differences:

8. Options, futures, swaps, forward rate agreements and any other financial derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (other than by reason of default or other termination event), as well as any other financial derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF;

II. Other financial instruments

- a) Transferable securities;
- b) Money-market instruments;
- c) Units in collective investment undertakings;

ANNEX III - RECOGNIZED STOCK EXCHANGES AND CLEARING HOUSES

I. RECOGNIZED STOCK EXCHANGES

1. Recognised stock exchanges that do not trade financial derivatives referred to in Annex II to this Decision¹

Name	MIC
AIAF – MERCADO DE RENTA FIJA	XDRF, SEND
ATHENS EXCHANGE SECURITIES MARKET	XATH
BADEN-WUERTTEMBERGISCHE WERTPAPIERBOERSE	STUC, STUA
BOERSE BERLIN	BERC, BERA, EQTB, EQTA
BOERSE DUESSELDORF	DUSC, DUSA
BOERSE MUENCHEN	MUNC, MUNA
BOLSA DE BARCELONA	XBAR, SBAR
BOLSA DE BILBAO	XBIL, SBIL
BOLSA DE MADRID	XMAD, MERF
BOLSA DE VALENCIA	XVAL
BONDSPOT SECURITIES MARKET	RPWC
BOURSE DE LUXEMBOURG	XLUX
BRATISLAVA STOCK EXCHANGE	XBRA
BUCHAREST STOCK EXCHANGE	XBSE
BUDAPEST STOCK EXCHANGE	XBUD
BULGARIAN STOCK EXCHANGE — SOFIA JSC	XBUL
CBOE EUROPE	CCXE
CME AMSTERDAM	BTAM
CYPRUS STOCK EXCHANGE	XCYS
ELECTRONIC BOND MARKET	MOTX
ELECTRONIC ETF AND ETC/ETN MARKET – ETFplus	ETFP
ELECTRONIC SECONDARY SECURITIES MARKET	HDAT
ELECTRONIC SHARE MARKET	MTAA
EURONEXT AMSTERDAM	XAMS
EURONEXT BRUSSELS	XBRU
EURONEXT DUBLIN	XMSM
EURONEXT EXPAND	XOAS
EURONEXT LISBON	XLIS
EURONEXT OSLO	XOSL
EURONEXT PARIS	XPAR
FRANKFURTER WERTPAPIERBOERSE (REGULIERTER MARKT)	FRAA, XETA
HANSEATISCHE WERTPAPIERBOERSE HAMBURG (REGULIERTER MARKT)	HAMA, HAMM
LJUBLJANA STOCK EXCHANGE OFFICIAL MARKET	XLJU
MALTA STOCK EXCHANGE	XMAL, IFSM
MARKET FOR INVESTMENT VEHICLES (MIV)	MIVX
MTS GOVERNMENT MARKET	MTSC
NASDAQ COPENHAGEN	XCSE

¹ Source: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02016R1646-20221017&qid=1701154877349>

NASDAQ HELSINKI	XHEL
NASDAQ ICELAND	XICE
NASDAQ RIGA	XRIS
NASDAQ STOCKHOLM	XSTO
NASDAQ TALLINN	XTAL
NASDAQ VILNIUS	XLIT
NIEDERSAECHSISCHE BOERSE ZU HANNOVER (REGULIERTER MARKT)	HANA
NORDIC GROWTH MARKET NGM	XNGM
NXCHANGE	XNXC
PRAGUE STOCK EXCHANGE	XPRA
RM-SYSTEM CZECH STOCK EXCHANGE	XRMZ
TRADEGATE EXCHANGE (REGULIERTER MARKT)	XGRM
VIENNA STOCKEXCHANGE OFFICIAL MARKET (AMTLICHER HANDEL)	WBAH
WARSAW STOCK EXCHANGE	XWAR,WBON, WETP
ZAGREB STOCK EXCHANGE	XZAG
ASX LIMITED	XASX
CHI-X AUSTRALIA PTY LTD	CHIA
THE STOCK EXCHANGE OF HONG KONG LIMITED (SEHK)	SHKG
BOX OPTIONS EXCHANGE LLC	XBOX
CBOE BYX EXCHANGE, INC. (FORMERLY BATS BYX EXCHANGE, INC.; BATS Y-EXCHANGE, INC.)	BATY
CBOE BZX EXCHANGE, INC. (FORMERLY BATS BZX EXCHANGE, INC.; BATS EXCHANGE, INC.)	BATS
CBOE C2 EXCHANGE, INC.	C2OX
CBOE EDGA EXCHANGE, INC. (FORMERLY BATS EDGA EXCHANGE, INC.; EDGA EXCHANGE, INC.)	EDGA
CBOE EDGX EXCHANGE, INC. (FORMERLY BATS EDGX EXCHANGE, INC.; EDGX EXCHANGE, INC.)	EDGX
CBOE EXCHANGE, INC.	CBSX
CHICAGO STOCK EXCHANGE, INC.	XCHI
THE INVESTORS EXCHANGE LLC	IEXG
MIAMI INTERNATIONAL SECURITIES EXCHANGE	XMIO
MIAX PEARL, LLC	MPRL
NASDAQ BX, INC. (FORMERLY NASDAQ OMX BX, INC.; BOSTON STOCK EXCHANGE)	BOSD
NASDAQ GEMX, LLC (FORMERLY ISE GEMINI)	GMNI
NASDAQ ISE, LLC (FORMERLY INTERNATIONAL SECURITIES EXCHANGE, LLC)	XISX
NASDAQ MRX, LLC (FORMERLY ISE MERCURY)	MCRY
NASDAQ PHLX LLC (FORMERLY NASDAQ OMX PHLX, LLC; PHILADELPHIA STOCK EXCHANGE)	XPHL
THE NASDAQ STOCK MARKET	XNAS
NEW YORK STOCK EXCHANGE LLC	XNYS
NYSE ARCA, INC.	ARCX
AQUA SECURITIES L.P.	AQUA
ATS-1	MSTX

ATS-4	MSPL
ATS-6	MSRP
BARCLAYS ATS	BARX
BARCLAYS DIRECTEX	BCDX
BIDS TRADING, L.P.	BIDS
CIOI	CIOI
CITIBLOC	CBLC
CITICROSS	CICX
CODA MARKETS, INC	CODA
CREDIT SUISSE SECURITIES (USA) LLC	CAES
DEUTSCHE BANK SECURITIES, INC	DBSX
EBX LLC	LEVL
INSTINCT X	BAML
INSTINET CONTINUOUS BLOCK CROSSING SYSTEM (CBX)	ICBX
INSTINET, LLC (INSTINET CROSSING, INSTINET BLX)	XINS
INSTINET, LLC (BLOCKCROSS)	BLKX
JPB-X	JPBX
J.P. MORGAN ATS ('JPM-X')	JPMX
JSVC LLC	*2
LIQUIDNET H2O ATS	LIUH
LIQUIDNET NEGOTIATION ATS	LIUS
LUMINEX TRADING & ANALYTICS LLC	LMNX
NATIONAL FINANCIAL SERVICES, LLC	NFSC
POSIT	ITGI
SIGMA X2	SGMT
SPOT QUOTE LLC	*
SPREAD ZERO LLC	*
UBS ATS	UBSS
USTOCKTRADE	*
VIRTU MATCHIT	VFMI
XE	PJCX
Banjalučka berza	BLSE
Sarajevska berza	SASE
Beogradska berza	BELEX

2. Recognised exchanges on which financial derivatives referred to in Annex II are traded³

Name	MIC
ATHENS EXCHANGE DERIVATIVES MARKET	XADE
BUDAPEST STOCK EXCHANGE	XBUD
CBOE DERIVATIVES	CDEX
EUREX DEUTSCHLAND	XEUR
EURONEXT BRUSSELS DERIVATIVES	XBRD
EURONEXT COM — COMMODITIES FUTURES AND OPTIONS	XEUC

² Market identifier codes (MIC), market identification codes are not available in accordance with ISO 10383

³ Source: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02016R1646-20221017&qid=1701154877349>

EURONEXT EQF — EQUITIES AND INDICES DERIVATIVES	XEUE
EUROPEAN ENERGY EXCHANGE	XEEE, XEER
FISH POOL	FISH
HENEX FINANCIAL ENERGY MARKET – DERIVATIVES MARKET	HEDE
HUDEX ENERGY EXCHANGE	HUDX
ICE ENDEX MARKETS	NDEX
ITALIAN DERIVATIVES MARKET	XDMI
MATIF	XMAT
MEFF EXCHANGE	XMRV, XMPW, XMTX
MERCADO DE FUTUROS E OPCOES	MFOX
MONEP	XMON
NASDAQ OSLO	NORX
NASDAQ STOCKHOLM	XSTO
NOREXECO	NEXO
OMIP – POLO PORTUGUES	OMIP
OSLO BØRS	XOSL
WARSAW STOCK EXCHANGE/COMMODITIES/POLISH POWER EXCHANGE/COMMODITY DERIVATIVES	PLPD
WARSAW STOCK EXCHANGE/FINANCIAL DERIVATIVES	WDER

NOTE: As the above list is subject to changes by the European Commission, the bank will use the updated list of recognised exchanges published by the European Commission as a relevant source for retrieving up-to-date data.

II. RECOGNIZED CLEARING HOUSES

1. List of central counterparties authorised to provide services and activities in the EU⁴

Name	Country of Incorporation
Nasdaq OMX Clearing AB	Sweden
European Central Counterparty N.V.	Netherlands
KDPW CCP	Poland
Eurex Clearing AG	Germany
Cassa di Compensazione e Garanzia S.p.A. (CCG)	Italy
LCH SA	France
European Commodity Clearing	Germany
Keler CCP	Hungary
CCP Austria Abwicklungsstelle für Börsengeschäfte GmbH (CCP.A)	Austria
BME Clearing	Spain
OMIClear - C.C., S.A.	Portugal
ICE Clear Netherlands B.V.	Netherlands
Athens Exchange Clearing House (Athex Clear)	Greece
SKDD-CCP Smart Clear d.d (SKDD-CCP)	Croatia

⁴ https://www.esma.europa.eu/sites/default/files/library/ccps_authorized_under_emir.pdf

2. List of third-country central counterparties recognised as providing services and activities in the EU⁵

Name	Country of Incorporation
ASX Clear (Futures) Pty Limited	Australia
ASX Clear Pty Limited	Australia
Hong Kong Securities Clearing Company Limited	Hong Kong
HKFE Clearing Corporation Limited	Hong Kong
OTC Clearing Hong Kong Limited	Hong Kong
The SEHK Options Clearing House Limited	Hong Kong
Japan Securities Clearing Corporation	Japan
Tokyo Financial Exchange	Japan
Central Depository (Pte) Limited	Singapore
Singapore Exchange Derivatives Clearing	Singapore
ICE Clear Singapore	Singapore
JSE Clear	South Africa
ICE NGX Canada Inc	Canada
Canadian Derivatives Clearing Corporation	Canada
Asigna Compensacion y Liquidacion	Mexico
SIX x-clear AG	Switzerland
Korea Exchange, Inc.	South Korea
Chicago Mercantile Exchange, Inc.	USA
ICE Clear Credit LLC	USA
Minneapolis Grain Exchange, Inc.	USA
ICE Clear US, Inc.	USA
National Securities Clearing Corporation	USA
Dubai Commodities Clearing Corporation	UAE
B3	Brazil
Nodal Clear, LLC	USA
New Zealand Clearing Limited	New Zealand
LCH Limited	UK
ICE Clear Europe Limited	UK
LME Clear Limited	UK
Options Clearing Corporation	USA
Fixed Income Clearing Corporation	USA
ComDer Contraparte Central	Chile
Shanghai Clearing House	China
Bursa Malaysia Derivatives Clearing Berhad	Malaysia
Taiwan Futures Exchange Corporation	Taiwan
Cámara de Riesgo Central de Contraparte de Colombia S.A.	Colombia
Tel-Aviv Stock Exchange Clearing House Ltd	Israel

NOTE: Since the above list is subject to change, the bank will use an updated list of recognised clearing houses published by the European Securities and Markets Authority (ESS). European Securities and Markets Authority (ESMA) as a relevant source for downloading up-to-date data.

⁵ https://www.esma.europa.eu/sites/default/files/library/third-country_ccps_recognised_under_emir.pdf

**ANNEX IV - LIST OF THIRD COUNTRIES WHERE REGULATORY AND
SUPERVISORY REQUIREMENTS EQUIVALENT TO THOSE APPLICABLE IN
THE EU APPLY**

Regulatory and supervisory requirements for banks (related to Art. 48, 54 to 56 of this Decision)⁶

Argentina
Australia
Brazil
Canada
China
Faroe Islands
Greenland
Guernsey
Hong Kong
India
Isle of Man
Japan
Jersey
Mexico
Monaco
New Zealand
North Macedonia
Saudi Arabia
Serbia
Singapore
South Africa
South Korea
Switzerland
Turkey
USA

Regulatory and supervisory requirements for investment firms (as regards Article 48 of this Decision)⁷

Australia
Brazil
Canada
China
Hong Kong
Indonesia
Japan
Mexico
South Korea
Saudi Arabia
Singapore
South Africa
USA

⁶ <https://eur-lex.europa.eu/legal-content/HR/TXT/HTML/?uri=CELEX:32021D1753>

⁷ <https://eur-lex.europa.eu/legal-content/HR/TXT/HTML/?uri=CELEX:32021D1753>